



**THE NATIONAL COMMERCIAL BANK**  
(A Saudi Joint Stock Company)

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

**30 JUNE 2019**

**Ernst & Young**

**KPMG Al Fozan & Partners**



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

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

#### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2019 and the related interim condensed consolidated statements of income and comprehensive income for the three months and six months period then ended and the interim condensed consolidated statements of changes in equity and cash flows for the six months period then ended and the notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

#### **Scope of review**

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

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

#### **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.

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28 Dhul-Qi'dah 1440H  
(Corresponding to 31 July 2019)



(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	30 June 2018 (Unaudited) SAR '000
	Notes			
<b>ASSETS</b>				
Cash and balances with SAMA		31,493,396	32,514,075	35,832,018
Due from banks and other financial institutions, net		14,127,769	15,964,451	18,028,615
Investments, net	5	126,629,790	118,090,208	114,977,772
Financing and advances, net	6	276,267,211	265,317,391	266,043,128
Positive fair value of derivatives, net	7	5,339,018	3,913,049	3,799,256
Investments in associates, net		449,931	447,371	448,259
Other real estate, net		1,226,523	1,132,277	1,040,107
Property, equipment and software, net		5,379,307	5,347,611	5,256,742
Goodwill		-	-	250,969
Right of use assets, net		1,787,133	-	-
Other assets		15,943,216	10,663,464	10,057,243
<b>Total assets</b>		<b>478,643,294</b>	<b>453,389,897</b>	<b>455,734,109</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		61,593,983	45,962,850	50,038,534
Customers' deposits	8	327,437,090	318,698,791	317,652,668
Debt securities issued	9	1,864,984	9,430,907	8,753,860
Negative fair value of derivatives, net	7	5,977,258	3,279,130	2,807,846
Other liabilities		13,480,881	10,349,510	11,449,215
<b>Total liabilities</b>		<b>410,354,196</b>	<b>387,721,188</b>	<b>390,702,123</b>
<b>EQUITY</b>				
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>				
Share capital	11	30,000,000	30,000,000	30,000,000
Treasury shares		(357,971)	(373,313)	(373,313)
Statutory reserve		22,894,980	22,894,980	20,266,514
Other reserves (cumulative changes in fair values)		669,476	(606,048)	2,707
Employees' share based payments reserve		145,037	196,798	146,774
Retained earnings		11,710,956	6,790,221	11,065,196
Proposed dividend	12	-	3,288,350	-
Foreign currency translation reserve		(4,637,370)	(4,454,071)	(4,101,118)
<b>Equity attributable to shareholders of the Bank</b>		<b>60,425,108</b>	<b>57,736,917</b>	<b>57,006,760</b>
Tier 1 Sukuk	14	7,000,000	7,000,000	7,000,000
<b>Equity attributable to equity holders of the Bank</b>		<b>67,425,108</b>	<b>64,736,917</b>	<b>64,006,760</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>863,990</b>	<b>931,792</b>	<b>1,025,226</b>
<b>Total equity</b>		<b>68,289,098</b>	<b>65,668,709</b>	<b>65,031,986</b>
<b>Total liabilities and equity</b>		<b>478,643,294</b>	<b>453,389,897</b>	<b>455,734,109</b>

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

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

*Faisal O. Al-Sakkaf*  
Faisal O. Al-Sakkaf  
Chief Executive Officer

*Ziad M. Al-Tunisi*  
Ziad M. Al-Tunisi  
Board of Directors' Member


(A Saudi Joint Stock Company)

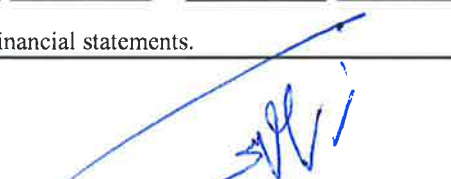
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE**

	<u>Notes</u>	For the three months ended		For the six months ended	
		30 June 2019 SAR '000	30 June 2018 SAR '000 (Restated)	30 June 2019 SAR '000	30 June 2018 SAR '000 (Restated)
Special commission income		4,782,870	4,442,130	9,646,286	8,669,652
Special commission expense		(1,113,956)	(868,698)	(2,415,703)	(1,677,647)
<b>Net special commission income</b>		<b>3,668,914</b>	<b>3,573,432</b>	<b>7,230,583</b>	<b>6,992,005</b>
Fee income from banking services, net		857,947	808,831	1,645,450	1,661,268
Exchange income, net		290,092	288,711	529,738	550,948
Income from FVIS instruments, net		247,043	82,612	660,823	409,558
Gains/Income on non-FVIS financial instruments, net		85,244	2,808	121,505	34,580
Other operating (expenses), net		(94,288)	(95,840)	(180,389)	(208,564)
<b>Total operating income</b>		<b>5,054,952</b>	<b>4,660,554</b>	<b>10,007,710</b>	<b>9,439,795</b>
Salaries and employee-related expenses		891,984	898,817	1,798,990	1,818,062
Rent and premises-related expenses		86,072	195,946	176,408	388,882
Depreciation/amortisation of property, equipment and software		214,599	154,737	427,344	310,907
Other general and administrative expenses		477,723	448,357	885,816	847,964
Impairment charge for financing and advances losses, net		328,095	335,306	472,298	332,971
Impairment charge on investments, net		(3,356)	(441)	(2,232)	85,082
<b>Total operating expenses</b>		<b>1,995,117</b>	<b>2,032,722</b>	<b>3,758,624</b>	<b>3,783,868</b>
<b>Income from operations, net</b>		<b>3,059,835</b>	<b>2,627,832</b>	<b>6,249,086</b>	<b>5,655,927</b>
<b>Other income, net</b>					
Other non-operating income, net		(12,960)	(3,360)	(10,361)	(2,534)
<b>Other income, net</b>		<b>(12,960)</b>	<b>(3,360)</b>	<b>(10,361)</b>	<b>(2,534)</b>
<b>Net income for the period before Zakat and income tax</b>		<b>3,046,875</b>	<b>2,624,472</b>	<b>6,238,725</b>	<b>5,653,393</b>
<b>Zakat and income tax expense</b>	2.5.2	<b>(338,108)</b>	<b>(422,221)</b>	<b>(732,367)</b>	<b>(816,911)</b>
<b>Net income for the period after Zakat and income tax</b>		<b>2,708,767</b>	<b>2,202,251</b>	<b>5,506,358</b>	<b>4,836,482</b>
<b>Net income for the period after Zakat and income tax attributable to:</b>					
Equity holders of the Bank		2,685,587	2,166,351	5,461,130	4,768,006
Non-controlling interests		23,180	35,900	45,228	68,476
<b>Net income for the period after Zakat and income tax</b>		<b>2,708,767</b>	<b>2,202,251</b>	<b>5,506,358</b>	<b>4,836,482</b>
<b>Basic earnings per share (expressed in SAR per share)</b>	15	<b>0.87</b>	<b>0.69</b>	<b>1.76</b>	<b>1.53</b>
<b>Diluted earnings per share (expressed in SAR per share)</b>	15	<b>0.87</b>	<b>0.69</b>	<b>1.76</b>	<b>1.53</b>

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

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Faisal O. Al-Sakkaf  
Chief Executive Officer

  
Ziad M. Al-Tunisi  
Board of Directors' Member

(A Saudi Joint Stock Company)

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

	For the three months ended		For the six months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	<u>SAR '000</u>	<u>SAR '000</u> (Restated)	<u>SAR '000</u>	<u>SAR '000</u> (Restated)
<b>Net income for the period</b>	<b>2,708,767</b>	<b>2,202,251</b>	<b>5,506,358</b>	<b>4,836,482</b>
<b>Other comprehensive income/(loss)</b>				
<i>Items that cannot be reclassified to the interim condensed consolidated statement of income in subsequent periods</i>				
- Movement in fair value reserve (equity instruments):	3,874	(13,923)	2,605	(17,490)
<i>Other comprehensive (loss) items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</i>				
Foreign currency translation reserve (losses)	(125,047)	(561,286)	(264,314)	(729,620)
<b>FVOCI debt instruments:</b>				
- Net change in fair values	414,636	(236,668)	1,245,188	(599,043)
- Transfers to the interim condensed consolidated statement of income	(22,341)	7,161	(37,085)	1,934
<b>Cash flow hedges:</b>				
- Effective portion of changes in fair values	35,740	(30,534)	108,743	(144,457)
- Transfers to the interim condensed consolidated statement of income	(11,503)	62,995	(37,063)	156,349
<b>Total other comprehensive income/(loss)</b>	<b>295,359</b>	<b>(772,255)</b>	<b>1,018,074</b>	<b>(1,332,327)</b>
<b>Total comprehensive income for the period</b>	<b>3,004,126</b>	<b>1,429,996</b>	<b>6,524,432</b>	<b>3,504,155</b>
<b>Attributable to:</b>				
Equity holders of the Bank	3,005,039	1,588,045	6,553,355	3,679,892
Non-controlling interests	(913)	(158,049)	(28,923)	(175,737)
<b>Total comprehensive income for the period</b>	<b>3,004,126</b>	<b>1,429,996</b>	<b>6,524,432</b>	<b>3,504,155</b>

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

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Faisal O. Al-Sakkaf  
Chief Executive Officer

  
Ziad M. Al-Tunisi  
Board of Directors' Member



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

		Attributable to equity holders of the Bank												
		Other reserves												
		Share capital	Treasury shares	Statutory reserve	Cash flow hedge reserves	FVOCI financial instrument reserve	Employees' share based payments reserve	Retained earnings	Proposed dividend	Foreign currency translation reserve	Total equity attributable to shareholders of the Bank	Tier 1 Sukuk	Total equity attributable to equity holders of the Bank	Non-controlling interests
Notes		SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
	Balance as at 1 January 2019	30,000,000	(373,313)	22,894,980	31,148	(637,196)	196,798	6,790,121	3,388,350	(4,454,071)	57,736,917	7,000,000	64,736,917	931,792
	IFRS 16 first time adoption impact at 1 January 2019	-	-	-	-	-	-	(272,674)	-	-	(272,674)	-	(272,664)	10
	Balance as at 1 January 2019 (restated)	30,000,000	(373,313)	22,894,980	31,148	(637,196)	196,798	6,517,447	3,388,350	(4,454,071)	57,464,243	7,000,000	64,464,243	931,802
	Other comprehensive income/(loss) for the period	-	-	-	72,969	1,202,555	-	5,461,130	-	(183,299)	1,092,225	-	1,092,225	(74,151)
	Net income for the period	-	-	-	-	-	-	5,461,130	-	-	5,461,130	-	5,461,130	45,228
	Total comprehensive income/(loss) for the period	-	-	-	72,969	1,202,555	-	5,461,130	-	(183,299)	6,553,355	-	6,553,355	(28,923)
	Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(26,921)	-	-	(26,921)	-	(26,921)	(38,889)
14	Tier 1 Sukuk related costs	-	-	-	-	-	-	(199,408)	-	-	(199,408)	-	(199,408)	(199,408)
	Purchase of treasury shares for employee's share based payment plan	-	(125,000)	-	-	-	-	(125,000)	-	-	(125,000)	-	(125,000)	(125,000)
	Settlement of vested share based payment plan via treasury shares	-	140,342	-	-	-	-	(140,342)	-	-	-	-	-	-
	Share based payments reversal	-	-	-	-	-	(103,330)	103,330	-	-	-	-	-	-
	Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	51,569	(4,380)	4,380	-	51,569	-	51,569	51,569
	Proposed dividend adjustment	-	-	-	-	-	-	-	(3,292,730)	-	(3,292,730)	-	(3,292,730)	-
	Final dividend paid for 2018	-	-	-	-	-	-	-	-	-	-	-	-	-
	Balance as at 30 June 2019	30,000,000	(357,971)	22,894,980	104,117	566,359	145,037	11,710,956	-	(4,637,370)	60,425,108	7,000,000	67,425,108	863,990
	Balance as at 1 January 2018	20,000,000	(226,011)	20,266,514	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	55,908,453	7,000,000	62,908,453	1,235,049
	IFRS 9 first time adoption impact at 1 January 2018	-	-	-	-	574,236	-	(1,711,069)	-	-	(1,136,833)	-	(1,136,833)	(40,084)
	Balance as at 1 January 2018 (restated)	20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965
	Other comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	(1,088,114)	-	(1,088,114)	(244,213)
	Net income for the period	-	-	-	-	-	-	4,768,006	-	-	4,768,006	-	4,768,006	66,476
	Total comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	3,679,892	-	3,679,892	(175,737)
	Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(2,171)	-	-	(2,171)	-	(2,171)	5,998
14	Tier 1 Sukuk related costs	-	-	-	-	-	-	(184,705)	-	-	(184,705)	-	(184,705)	(184,705)
	Purchase of treasury shares for employee's share based payment plan	-	(112,000)	-	-	-	-	-	-	-	(112,000)	-	(112,000)	(112,000)
	Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	49,888	1,115	(1,115)	-	49,888	-	49,888	49,888
	Proposed dividend adjustment	-	-	-	-	-	-	(1,195,764)	(1,195,764)	-	(1,195,764)	-	(1,195,764)	(1,195,764)
	Final dividend paid for 2017	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus issue	10,000,000	(35,302)	-	-	-	-	(9,964,698)	-	-	-	-	-	-
	Balance as at 30 June 2018 (Restated)	30,000,000	(373,313)	20,266,514	17,861	(15,154)	146,774	11,065,196	-	(4,101,118)	57,006,760	7,000,000	64,006,760	1,025,226
	Balance as at 1 January 2017	20,000,000	(226,011)	20,266,514	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	55,908,453	7,000,000	62,908,453	1,235,049
	IFRS 9 first time adoption impact at 1 January 2017	-	-	-	-	574,236	-	(1,711,069)	-	-	(1,136,833)	-	(1,136,833)	(40,084)
	Balance as at 1 January 2017 (restated)	20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965
	Other comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	(1,088,114)	-	(1,088,114)	(244,213)
	Net income for the period	-	-	-	-	-	-	4,768,006	-	-	4,768,006	-	4,768,006	66,476
	Total comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	3,679,892	-	3,679,892	(175,737)
	Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(2,171)	-	-	(2,171)	-	(2,171)	5,998
14	Tier 1 Sukuk related costs	-	-	-	-	-	-	(184,705)	-	-	(184,705)	-	(184,705)	(184,705)
	Purchase of treasury shares for employee's share based payment plan	-	(112,000)	-	-	-	-	-	-	-	(112,000)	-	(112,000)	(112,000)
	Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	49,888	1,115	(1,115)	-	49,888	-	49,888	49,888
	Proposed dividend adjustment	-	-	-	-	-	-	(1,195,764)	(1,195,764)	-	(1,195,764)	-	(1,195,764)	(1,195,764)
	Final dividend paid for 2017	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus issue	10,000,000	(35,302)	-	-	-	-	(9,964,698)	-	-	-	-	-	-
	Balance as at 30 June 2018 (Restated)	30,000,000	(373,313)	20,266,514	17,861	(15,154)	146,774	11,065,196	-	(4,101,118)	57,006,760	7,000,000	64,006,760	1,025,226
	Balance as at 1 January 2017	20,000,000	(226,011)	20,266,514	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	55,908,453	7,000,000	62,908,453	1,235,049
	IFRS 9 first time adoption impact at 1 January 2017	-	-	-	-	574,236	-	(1,711,069)	-	-	(1,136,833)	-	(1,136,833)	(40,084)
	Balance as at 1 January 2017 (restated)	20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965
	Other comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	(1,088,114)	-	(1,088,114)	(244,213)
	Net income for the period	-	-	-	-	-	-	4,768,006	-	-	4,768,006	-	4,768,006	66,476
	Total comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	3,679,892	-	3,679,892	(175,737)
	Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(2,171)	-	-	(2,171)	-	(2,171)	5,998
14	Tier 1 Sukuk related costs	-	-	-	-	-	-	(184,705)	-	-	(184,705)	-	(184,705)	(184,705)
	Purchase of treasury shares for employee's share based payment plan	-	(112,000)	-	-	-	-	-	-	-	(112,000)	-	(112,000)	(112,000)
	Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	49,888	1,115	(1,115)	-	49,888	-	49,888	49,888
	Proposed dividend adjustment	-	-	-	-	-	-	(1,195,764)	(1,195,764)	-	(1,195,764)	-	(1,195,764)	(1,195,764)
	Final dividend paid for 2017	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus issue	10,000,000	(35,302)	-	-	-	-	(9,964,698)	-	-	-	-	-	-
	Balance as at 30 June 2018 (Restated)	30,000,000	(373,313)	20,266,514	17,861	(15,154)	146,774	11,065,196	-	(4,101,118)	57,006,760	7,000,000	64,006,760	1,025,226
	Balance as at 1 January 2017	20,000,000	(226,011)	20,266,514	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	55,908,453	7,000,000	62,908,453	1,235,049
	IFRS 9 first time adoption impact at 1 January 2017	-	-	-	-	574,236	-	(1,711,069)	-	-	(1,136,833)	-	(1,136,833)	(40,084)
	Balance as at 1 January 2017 (restated)	20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965
	Other comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	(1,088,114)	-	(1,088,114)	(244,213)
	Net income for the period	-	-	-	-	-	-	4,768,006	-	-	4,768,006	-	4,768,006	66,476
	Total comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	3,679,892	-	3,679,892	(175,737)
	Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(2,171)	-	-	(2,171)	-	(2,171)	5,998
14	Tier 1 Sukuk related costs	-	-	-	-	-	-	(184,705)	-	-	(184,705)	-	(184,705)	(184,705)
	Purchase of treasury shares for employee's share based payment plan	-	(112,000)	-	-	-	-	-	-	-	(112,000)	-	(112,000)	(112,000)
	Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	49,888	1,115	(1,115)	-	49,888	-	49,888	49,888
	Proposed dividend adjustment	-	-	-	-	-	-	(1,195,764)	(1,195,764)	-	(1,195,764)	-	(1,195,764)	(1,195,764)
	Final dividend paid for 2017	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus issue	10,000,000	(35,302)	-	-	-	-	(9,964,698)	-	-	-	-	-	-
	Balance as at 30 June 2018 (Restated)	30,000,000	(373,313)	20,266,514	17,861	(15,154)	146,774	11,065,196	-	(4,101,118)	57,006,760	7,000,000	64,006,760	1,025,226
	Balance as at 1 January 2017	20,000,000	(226,011)	20,266,514	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	55,908,453	7,000,000	62,908,453	1,235,049
	IFRS 9 first time adoption impact at 1 January 2017	-	-	-	-	574,236	-	(1,711,069)	-	-	(1,136,833)	-	(1,136,833)	(40,084)
	Balance as at 1 January 2017 (restated)	20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965
	Other comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	(1,088,114)	-	(1,088,114)	(244,213)
	Net income for the period	-	-	-	-	-	-	4,768,006	-	-	4,768,006	-	4,768,006	66,476
	Total comprehensive income/(loss) for the period	-	-	-	7,508	(589,390)	-	4,768,006	-	(506,232)	3,679,892	-	3,679,892	(175,737)
	Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(2,171)	-	-	(2,171)	-	(2,171)	5,998
14	Tier 1 Sukuk related costs	-	-	-	-	-	-	(184,705)	-	-	(184,705)	-	(184,705)	(184,705)
	Purchase of treasury shares for employee's share based payment plan	-	(112,000)	-	-	-	-	-	-	-	(112,000)	-	(112,000)	(112,000)
	Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	49,888	1,115	(1,115)	-	49,888	-	49,888	49,888
	Proposed dividend adjustment	-	-	-	-	-	-	(1,195,764)	(1,195,764)	-	(1,195,764)	-	(1,195,764)	(1,195,764)
	Final dividend paid for 2017	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus issue	10,000,000	(35,302)	-	-	-	-	(9,964,698)	-	-	-	-	-	-
	Balance as at 30 June 2018 (Restated)	30,000,000	(373,313)	20,266,514	17,861	(15,154)	146,774	11,065,196	-	(4,101,118)	57,006,760	7,000,000	64,006,760	1,025,226
	Balance as at 1 January 2017	20,000,000	(226,011)	20,266,514	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	55,908,453	7,000,000	62,908,453	1,235,049
	IFRS 9 first time adoption impact at 1 January 2017	-	-	-	-	574,236	-	(1,711,069)	-	-	(1,136,833)	-	(1,136,833)	(40,084)
	Balance as at 1 January 2017 (restated)	20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620			

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

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

**Faisal O. Al-Sakkaf**  
**Chief Executive Officer**

**Ziad M. Al-Tunisi**  
**Board of Directors' Member**

(A Saudi Joint Stock Company)

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

	Notes	30 June 2019 SAR '000	30 June 2018 SAR '000
<b>OPERATING ACTIVITIES</b>			
Net income for the period before Zakat and income tax		6,238,725	5,653,393
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading financial instruments, net		109,242	143,888
(Gains) on non-FVIS financial instruments, net		(72,953)	(31,615)
(Gains) on disposal of property, equipment and software, net		(10,444)	(15,546)
(Gains) on disposal of other real estate, net		(3,214)	(1,890)
Loss on disposal of other repossessed assets		29,483	34,994
Depreciation/amortisation of property, equipment and software		427,344	310,907
Impairment charge for financing and advances, net		472,298	332,971
Impairment charge on investments, net		(2,232)	85,082
Impairment charge on other real estate		-	150
Share of results of associates, net		(2,560)	(1,960)
Share based payments plan expense		51,569	49,888
		<b>7,237,258</b>	<b>6,560,262</b>
Net increase (decrease) in operating assets:			
Statutory deposits with SAMA		428,284	(1,053,342)
Due from banks and other financial institutions with original maturity of more than three months, net		(2,623,188)	2,983,658
Held at fair value through income statement (FVIS) investments		(2,409,348)	1,984,117
Financing and advances, net		(13,762,221)	(22,421,074)
Positive fair value of derivatives, net		(1,335,240)	(699,001)
Other real estate		14,850	20,222
Other assets		(4,887,994)	288,284
Net increase in operating liabilities:			
Due to banks and other financial institutions		16,016,593	2,289,340
Customers' deposits		10,391,792	12,488,217
Negative fair value of derivatives, net		2,724,048	5,410
Other liabilities		273,982	1,548,816
Net cash from (used in) operating activities:		<b>12,068,816</b>	<b>3,994,909</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non-(FVIS) investments		7,887,016	4,741,544
Purchase of non-FVIS investments		(13,162,964)	(8,121,371)
Purchase of property, equipment and software		(381,544)	(419,740)
Proceeds from disposal of property, equipment and software		10,247	18,170
Dividends from associates		-	3,750
Net cash (used in) investing activities:		<b>(5,647,245)</b>	<b>(3,777,647)</b>
<b>FINANCING ACTIVITIES</b>			
Debt securities issued	9	3,293,739	450,670
Debt securities payment	9	(10,496,491)	(2,200,889)
Net movement in non-controlling interests		(32,349)	5,573
Tier 1 Sukuk related costs		(199,408)	(184,705)
Purchase of treasury shares		(125,000)	(112,000)
Final dividend paid for 2018/2017		(3,292,730)	(1,195,764)
Net cash (used in) financing activities:		<b>(10,852,239)</b>	<b>(3,237,115)</b>
Net (decrease) in cash and cash equivalents		<b>(4,430,668)</b>	<b>(3,019,853)</b>
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		(355,061)	(442,905)
Cash and cash equivalents at the beginning of the period		19,791,544	28,802,158
Cash and cash equivalents at the end of the period	4	15,005,815	25,339,400
Special commission income received during the period		9,814,594	8,579,360
Special commission expense paid during the period		2,378,355	1,692,557
<b>Supplemental non-cash information</b>			
Movement in other reserve and transfers to the interim condensed consolidated statement of income		1,279,783	(585,217)

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

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

*Faisal O. Al-Sakkaf*  
Faisal O. Al-Sakkaf  
Chief Executive Officer

*Ziad M. Al-Tunisi*  
Ziad M. Al-Tunisi  
Board of Directors' Member

# The National Commercial Bank

## (A Saudi Joint Stock Company)

### Notes To The Interim Condensed Consolidated Financial Statements

#### 30 June 2019 (UNAUDITED)

#### 1. GENERAL

##### (1.1) Introduction

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

The Bank's Head Office is located at the following address:

The National Commercial Bank  
Head Office  
King Abdul Aziz Street  
P.O. Box 3555  
Jeddah 21481, Saudi Arabia  
www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

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

The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon (the "Branch"). The required regulatory approvals have been received and the legal formalities in respect of closure of the branch are in progress.

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

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

Name of subsidiaries	Ownership %		30 June 2018	Description
	30 June 2019	31 December 2018		
NCB Capital Company (NCBC)	99.91%	96.70%	96.79%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities.
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	99.91%	96.70%	96.79%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets.
NCB Capital Real Estate Investment Company (REIC)	99.91%	96.70%	96.79%	The Company is a special purpose entity registered in the Kingdom of Saudi Arabia. The primary objective of REIC is to hold and register the real estate assets on behalf of real estate funds managed by NCB Capital Company.

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**1. GENERAL (continued)**

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

Name of subsidiaries	Ownership %			<u>Description</u>
	30 June 2019	31 December 2018	30 June 2018	
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	67.03%	67.03%	67.03%	A participation bank registered in Turkey that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.  As at the period end, TFKB 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 sukuku by TFKB.
Real Estate Development Company (REDCO)	100%	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	100%	100%	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.
Saudi NCB Markets Limited	100%	100%	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/ Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	100%	100%	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund's investment objective is to generate returns via investments in Shari'ah compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa.
AlAhli Outsourcing Company	100%	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the Kingdom of Saudi Arabia.

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# **The National Commercial Bank**

## **(A Saudi Joint Stock Company)**

### **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

#### **30 June 2019 (UNAUDITED)**

## **2. BASIS OF PREPARATION**

### **(2.1) Statement of compliance**

These consolidated financial statements are prepared in accordance with IAS 34 - Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA"). The Bank prepares its consolidated financial statements to comply with the Banking Control Law and the Regulation for Companies in the Kingdom of Saudi Arabia and the Bank's By-laws. These consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The preparation of 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.

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 2.5.2) and the effects of this change are disclosed in note 13 to the consolidated financial statements).

### **(2.2) Basis of measurement**

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), FVOCI - debt instruments and FVOCI - equity instruments]. In addition, financial assets or liabilities that are carried at amortized cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

### **(2.3) Functional and presentation currency**

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

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# **The National Commercial Bank**

## **(A Saudi Joint Stock Company)**

### **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

#### **30 June 2019 (UNAUDITED)**

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

### **(2.4) Basis of consolidation**

These consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries (see note 1.2). 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 off during the period, if any, are included in the 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 consolidated statement of income and within equity in the 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 Group exercises significant influence. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the 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 Group'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 recognised impairment loss in respect of investment in associate can be reversed through the 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 recognised in the 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 consolidated financial statements.

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

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

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

**(2.5) Impact of changes in accounting policies**

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2018, except for the adoption of the following new standard mentioned below and the change in the accounting for Zakat and income tax (see notes 2.1 and 2.5.2).

**(2.5.1) Implication of new standard**

Effective 1 January 2019 the Group has adopted IFRS 16 leases, the impact of the adoption of this standard is explained below:

**IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

**The effect of adoption of IFRS 16 is as**

**Reconciliation of lease liabilities**

	<b>2019</b>
	<b>SAR '000</b>
<b>Off-balance sheet lease obligations as of 31 December 2018</b>	<b>1,567,307</b>
Current leases contracts with a lease term of 12 months or less & low-value contracts leases	4,386
<b>Operating lease contracts obligations as of January 1, 2019 (Gross without discounting)</b>	<b>1,567,307</b>
<b>Operating contracts lease obligations as of January 1, 2019 (net, discounted)</b>	<b>1,136,233</b>
Reasonably certain extension or termination option	802,371
<b>Total lease liabilities as of January 1, 2019</b>	<b>1,938,604</b>

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# **The National Commercial Bank**

## **(A Saudi Joint Stock Company)**

### **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

#### **30 June 2019 (UNAUDITED)**

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

### **(2.5) Impact of changes in accounting policies due to adoption of new standards**

#### **(2.5.1) Implication of new standards**

##### **Nature of effect of IFRS 16**

The Group has lease contracts for Branch premises, ATM premises and leasehold improvements thereon until 31 December 2018 (i.e. before the adoption of IFRS 16), the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities respectively.

Upon adoption of IFRS 16, the Group has applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Group has recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets under lease arrangements. In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application with transition impact recognized in equity. Accordingly, comparative information in these consolidated financial statements has not been restated.

#### **(2.5.2) Change in the accounting relating to Zakat and income tax:**

As set out in note 2.1, the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 13 to the consolidated financial statements. The change has resulted in reduction of reported income of the Group for the period ended 30 June 2018 by SR 817 million. The change has had no impact on the statement of cash flows for the period ended 30 June 2018.

##### **Income tax:**

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

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# **The National Commercial Bank**

## **(A Saudi Joint Stock Company)**

### **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

#### **30 June 2019 (UNAUDITED)**

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

### **(2.5) Impact of changes in accounting policies due to adoption of new standards**

#### **(2.5.2) Change in the accounting policy relating to Zakat and income tax:**

##### **IFRIC Interpretation 23 Uncertainty over Income Tax**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

##### **Deferred income tax:**

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

**The National Commercial Bank**  
**(A Saudi Joint Stock Company)**

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

**Policy applicable on or after 1 January 2019**

**Right of use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. As of 1 January 2019, the right of use assets amounted to SAR 1,797 million.

**Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the internal cost of funds as the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included within other liabilities.

**Short-term leases and leases of low-value**

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Significant judgement in determining the lease term of contracts with renewal options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**4. CASH AND CASH EQUIVALENTS**

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

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>31 December 2018 (Audited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
Cash and balances with SAMA excluding statutory deposits	<b>12,684,665</b>	13,277,060	16,733,564
Due from banks and other financial institutions with original maturity of three months or less	<b>2,321,150</b>	6,514,484	8,605,836
<b>Total</b>	<b>15,005,815</b>	19,791,544	25,339,400

**5. INVESTMENTS, NET**

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>31 December 2018 (Audited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
Held at FVIS	<b>7,364,221</b>	4,954,873	4,272,109
Held at FVOCI	<b>54,567,342</b>	47,833,655	44,225,162
Investments held at amortised cost, net	<b>64,698,227</b>	65,301,680	66,480,501
<b>Total</b>	<b>126,629,790</b>	118,090,208	114,977,772

- a) Investments held at amortised cost include investments amounting to SAR 6,745 million (31 December 2018: SAR 7,962 million and 30 June 2018: SAR 6,959 million) which are held under a fair value hedge relationship. As at 30 June 2019, the fair value of these investments amount to SAR 7,216 million (31 December 2018: SAR 7,888 million and 30 June 2018: SAR 6,734 million).
- b) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 62,776 million (31 December 2018: SAR 55,189 million and 30 June 2018: SAR 48,456 million).
- c) Investments, net, include sukuks amounting to SAR 23,716 million (31 December 2018: SAR 23,575 million and 30 June 2018: SAR 26,088 million).
- d) FVOCI investments include equity instruments designated as FVOCI amounting to SAR 2,343 million (31 December 2018: SAR 1,490 million and 30 June 2018: SAR 1,287 million), including local public equities of SAR 1,344 million (31 December 2018: SAR 1,234 million and 30 June 2018: SAR 1,192 million).
- e) Dividend income recognized during 2019 for FVOCI investments amounts to SAR 47 million (30 June 2018: SAR 3 million).

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**6. FINANCING AND ADVANCES, NET**

30 June 2019 (Unaudited)

SAR '000

	<u>Consumer</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
Performing financing and advances	110,555,405	136,094,416	19,999,228	11,883,327	278,532,376
Non-performing financing and advances	652,486	3,241,992	1,170,876	-	5,065,354
<b>Total financing and advances</b>	<b>111,207,891</b>	<b>139,336,408</b>	<b>21,170,104</b>	<b>11,883,327</b>	<b>283,597,730</b>
Allowance for financing losses (ECL allowances)	(1,679,902)	(4,616,107)	(949,326)	(85,184)	(7,330,519)
<b>Financing and advances, net</b>	<b>109,527,989</b>	<b>134,720,301</b>	<b>20,220,778</b>	<b>11,798,143</b>	<b>276,267,211</b>

31 December 2018 (Audited)

SAR '000

	<u>Consumer</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
Performing financing and advances	104,601,345	132,148,891	21,093,653	9,652,142	267,496,031
Non-performing financing and advances	618,301	3,402,684	1,226,392	-	5,247,377
<b>Total financing and advances</b>	<b>105,219,646</b>	<b>135,551,575</b>	<b>22,320,045</b>	<b>9,652,142</b>	<b>272,743,408</b>
Allowance for financing losses (ECL allowances)	(1,630,999)	(4,628,707)	(1,108,952)	(57,359)	(7,426,017)
<b>Financing and advances, net</b>	<b>103,588,647</b>	<b>130,922,868</b>	<b>21,211,093</b>	<b>9,594,783</b>	<b>265,317,391</b>

30 June 2018 (Unaudited)

SAR '000

	<u>Consumer</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
Performing financing and advances	100,767,303	133,381,934	23,487,843	11,319,965	268,957,045
Non-performing financing and advances	543,674	2,941,529	1,264,668	-	4,749,871
<b>Total financing and advances</b>	<b>101,310,977</b>	<b>136,323,463</b>	<b>24,752,511</b>	<b>11,319,965</b>	<b>273,706,916</b>
Allowance for financing losses (ECL allowances)	(1,565,575)	(4,832,940)	(1,209,891)	(55,382)	(7,663,788)
<b>Financing and advances, net</b>	<b>99,745,402</b>	<b>131,490,523</b>	<b>23,542,620</b>	<b>11,264,583</b>	<b>266,043,128</b>

Other financing and advances include financial institutions.

- a) Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SAR 230,749 million (31 December 2018: SAR 221,998 million and 30 June 2018: SAR 220,646 million).

**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**6. FINANCING AND ADVANCES, NET (continued)**

b) Movement in ECL allowances for the period ended 30 June 2019 is as follows:

30 June 2019 (Unaudited)				
SAR '000				
	Stage 1 12 month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ECL credit impaired	Total
Balance as at 1 January 2019	2,566,045	1,097,784	3,762,188	7,426,017
Net impairment charge	(93,021)	(4,947)	952,369	854,401
Transfer to 12 months ECL	60,199	(40,240)	(19,959)	-
Transfer to lifetime ECL not credit-impaired	(51,414)	70,197	(18,783)	-
Transfer to lifetime ECL credit impaired	(9,068)	(69,191)	78,259	-
Bad debts written off	-	-	(857,965)	(857,965)
Foreign currency translation differences	(7,065)	(13,812)	(71,057)	(91,934)
<b>Balance as at 30 June 2019</b>	<b>2,465,676</b>	<b>1,039,791</b>	<b>3,825,052</b>	<b>7,330,519</b>
31 December 2018 (Audited)				
SAR '000				
	Stage 1 12 month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ECL credit impaired	Total
Balance as at 1 January 2018	2,713,436	1,700,263	3,821,815	8,235,514
Net impairment (reversal) charge	(129,061)	159,191	2,133,569	2,163,699
Transfer to 12 months ECL	116,226	(64,695)	(51,531)	-
Transfer to lifetime ECL not credit-impaired	(56,312)	64,429	(8,117)	-
Transfer to lifetime ECL credit impaired	(39,060)	(679,562)	718,622	-
Bad debts written off	-	-	(2,538,816)	(2,538,816)
Foreign currency translation differences	(39,184)	(81,842)	(313,354)	(434,380)
<b>Balance as at 31 December 2018</b>	<b>2,566,045</b>	<b>1,097,784</b>	<b>3,762,188</b>	<b>7,426,017</b>
30 June 2018 (Unaudited)				
SAR '000				
	Stage 1 12 month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ECL credit impaired	Total
Balance as at 1 January 2018	2,713,436	1,700,263	3,821,815	8,235,514
Net impairment (reversal) charge	(58,061)	65,722	836,667	844,328
Transfer to 12 months ECL	128,788	(73,564)	(55,224)	-
Transfer to lifetime ECL not credit-impaired	(64,158)	75,056	(10,898)	-
Transfer to lifetime ECL credit impaired	(18,602)	(493,919)	512,521	-
Bad debts written off	-	-	(1,174,560)	(1,174,560)
Foreign currency translation differences	(23,975)	(54,606)	(162,913)	(241,494)
<b>Balance as at 30 June 2018</b>	<b>2,677,428</b>	<b>1,218,952</b>	<b>3,767,408</b>	<b>7,663,788</b>



# **The National Commercial Bank**

(A Saudi Joint Stock Company)

## **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

**30 June 2019 (UNAUDITED)**

### **7. DERIVATIVES**

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

#### **(a) Swaps**

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

#### **(b) Forwards and futures**

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

#### **(c) Forward rate agreements**

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

#### **(d) Options**

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

#### **(e) Structured derivative products**

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

#### **(7.1) Derivatives held for trading purposes**

Most of the Group's derivative trading activities are relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**7. DERIVATIVES (continued)**

**(7.2) Derivatives held for hedging purposes**

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	<u>30 June 2019 (Unaudited)</u>			<u>31 December 2018 (Audited)</u>			<u>30 June 2018 (Unaudited)</u>		
	<u>SAR'000</u>			<u>SAR'000</u>			<u>SAR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
<b>Held for trading:</b>									
Special commission rate instruments	4,459,218	(4,133,385)	237,482,596	2,678,597	(2,387,874)	212,624,498	2,327,824	(2,043,039)	184,329,230
Forward foreign exchange contracts	345,741	(23,282)	60,431,152	335,677	(73,316)	80,779,791	353,557	(83,733)	71,323,434
Options	6,335	(6,301)	293,383	35	(36)	22,560	20,891	(9,747)	237,434
Structured derivatives	4,891	(5,056)	1,013,151	8,371	(9,342)	2,600,149	34,400	(37,700)	8,553,729
<b>Held as fair value hedges:</b>									
Special commission rate instruments	307,254	(1,703,110)	17,392,086	687,692	(424,863)	23,938,733	874,418	(256,507)	19,850,057
<b>Held as cash flow hedges:</b>									
Special commission rate instruments	215,579	(106,124)	5,514,062	202,677	(383,699)	12,228,663	188,166	(377,120)	12,360,350
<b>Total</b>	<u>5,339,018</u>	<u>(5,977,258)</u>	<u>322,126,430</u>	<u>3,913,049</u>	<u>(3,279,130)</u>	<u>332,194,394</u>	<u>3,799,256</u>	<u>(2,807,846)</u>	<u>296,654,234</u>

**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**8. CUSTOMERS' DEPOSITS**

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>31 December 2018 (Audited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
Current accounts	239,826,038	254,744,356	251,204,395
Savings	126,701	125,938	123,702
Time	73,440,416	49,747,561	53,141,547
Others	14,043,935	14,080,936	13,183,024
<b>Total</b>	<b>327,437,090</b>	<b>318,698,791</b>	<b>317,652,668</b>

International segment customers deposits included in customers' deposits comprise of:

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>31 December 2018 (Audited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
Current accounts	9,288,895	6,867,202	6,896,734
Time	13,625,511	12,113,741	12,734,667
Others	304,231	299,820	358,330
<b>Total</b>	<b>23,218,637</b>	<b>19,280,763</b>	<b>19,989,731</b>

**9. DEBT SECURITIES ISSUED**

As at the reporting date, debt securities issued comprise of non-convertible sukuks issued by the Group, carrying profit at fixed rates, with maturities up to 2020. Below is a reconciliation of liabilities arising from financing activities:

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>31 December 2018 (Audited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
<b>Debt securities issued:</b>			
Balance at beginning of the period	9,430,907	10,250,310	10,250,310
Debt securities issued	3,293,739	3,028,039	450,670
Debt securities payment	(10,496,491)	(3,457,626)	(2,200,889)
Foreign currency translation adjustment	(363,171)	(389,816)	253,769
<b>Balance at end of the period</b>	<b>1,864,984</b>	<b>9,430,907</b>	<b>8,753,860</b>

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>31 December 2018 (Audited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
Letters of credit	7,899,143	10,800,494	12,669,410
Guarantees	33,032,320	33,561,534	35,124,848
Acceptances	1,247,683	2,185,162	2,266,997
Irrevocable commitments to extend credit	10,720,584	9,071,129	10,540,727
<b>Total</b>	<b>52,899,730</b>	<b>55,618,319</b>	<b>60,601,982</b>

**11. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Bank consists of 3,000,000,000 shares of SAR 10 each (31 December 2018: 3,000,000,000 shares of SAR 10 each and 30 June 2018: 3,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares consists of 2,991,171,957 shares of SAR 10 each (31 December 2018: 2,989,409,411 shares of SAR 10 each and 30 June 2018: 2,989,409,411 shares of SAR 10 each).

**12. DIVIDEND**

On 22 December 2018, the Board of Directors has recommended the distribution of final dividend of SAR 3,288 million (SAR 1.10 per share) and accordingly, was paid in full during the six month period ended 30 June 2019.

**13. ZAKAT**

The Bank is calculating Zakat accruals for the year 2019 based on the new Zakat rules for financing activities.

During the year 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability for previous years and accordingly all assessments have been finalized until 2017.

Zakat has been computed for the year ended 31 December 2018 in line with the basis of settlement agreement with GAZT.

Zakat expense is charged to the statement of income and not accounted for as income tax therefore no deferred zakat is calculated.

The change in the accounting treatment for zakat and income tax (as explained in note 2.5.2) has the following impact on the line items of the statements of income and changes in shareholders' equity:

	<b>Financial statement impacted</b>	<b>As previously reported 30 June 2018</b>	<b>Effect of restatement</b>	<b>As restated 30 June 2018</b>
<b>For the six month period ended 30 June 2018:</b>				
Provision for zakat and income tax (retained earnings)	Statement of changes in equity	816,911	(816,911)	-
Zakat and income tax expenses	Statement of income	-	816,911	816,911
Earnings per share	Statement of income	1.80	(0.27)	1.53
<b>Net income for the period</b>		<b>5,653,393</b>	<b>(816,911)</b>	<b>4,836,482</b>
<b>Total comprehensive income for the period</b>		<b>4,321,066</b>	<b>(816,911)</b>	<b>3,504,155</b>
<b>For the three month period ended 30 June 2018:</b>				
Provision for zakat and income tax (retained earnings)	Statement of changes in equity	422,221	(422,221)	-
Zakat and income tax expenses	Statement of income	-	422,221	422,221
Earnings per share	Statement of income	0.83	(0.14)	0.69
<b>Net income for the period</b>		<b>2,624,472</b>	<b>(422,221)</b>	<b>2,202,251</b>
<b>Total comprehensive income for the period</b>		<b>1,852,217</b>	<b>(422,221)</b>	<b>1,429,996</b>

# The National Commercial Bank

## (A Saudi Joint Stock Company)

### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 June 2019 (UNAUDITED)

#### 14. TIER 1 SUKUK

During 2017, the Bank through a Shariah compliant arrangement ("the arrangement") issued further Tier 1 Sukuk (the "Sukuk"), amounting to SAR 1.3 billion. The initial issue amounting to SAR 5.7 billion took place during the year ended 31 December 2015 under similar arrangement. These arrangements were 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 date, except upon the occurrence of a non 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.

#### 15. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 30 June 2019 and 30 June 2018 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the periods ended 30 June 2019 and 30 June 2018 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank for the periods by the weighted average number of outstanding shares. The diluted earnings per share are adjusted with the impact of the employees' share based payment plan.

#### 16. OPERATING SEGMENTS

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

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

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

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

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



**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**16. 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 2019 (Unaudited)						
SAR'000						
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
<b>Total assets</b>	<b>140,831,479</b>	<b>138,212,919</b>	<b>165,265,935</b>	<b>1,767,232</b>	<b>32,565,729</b>	<b>478,643,294</b>
<b>Total liabilities</b>	<b>245,904,729</b>	<b>59,976,283</b>	<b>75,907,807</b>	<b>301,585</b>	<b>28,263,792</b>	<b>410,354,196</b>
- Customers' deposits	233,404,644	58,281,835	12,528,040	3,934	23,218,637	327,437,090
Total operating income from external customers	3,623,239	3,267,194	2,019,750	397,642	699,885	10,007,710
- Intersegment operating income (expense)	1,168,599	(1,304,531)	184,929	(7)	(48,990)	-
<b>Total operating income</b>	<b>4,791,838</b>	<b>1,962,663</b>	<b>2,204,679</b>	<b>397,635</b>	<b>650,895</b>	<b>10,007,710</b>
of which:						
- Net special commission income	4,031,585	1,527,214	1,093,890	8,115	569,779	7,230,583
- Fee income from banking services, net	699,471	435,733	54,535	361,090	94,621	1,645,450
<b>Total operating expenses</b>	<b>2,310,150</b>	<b>517,649</b>	<b>258,796</b>	<b>153,420</b>	<b>518,609</b>	<b>3,758,624</b>
of which:						
- Depreciation/amortisation of property, equipment and software	292,517	42,437	27,910	9,379	55,101	427,344
- Impairment (reversal)/charge for financing and advances losses, net	260,046	42,321	19,715	-	150,216	472,298
- Impairment charge on investments, net	-	-	(2,655)	-	423	(2,232)
<b>Other non-operating (expenses), net</b>	<b>(12,287)</b>	<b>(10,766)</b>	<b>(12,501)</b>	<b>22</b>	<b>25,171</b>	<b>(10,361)</b>
<b>Net income for the period before Zakat and income tax</b>	<b>2,469,401</b>	<b>1,434,248</b>	<b>1,933,382</b>	<b>244,237</b>	<b>157,457</b>	<b>6,238,725</b>
30 June 2018 (Unaudited)						
SAR'000						
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
<b>Total assets</b>	<b>131,530,976</b>	<b>134,765,286</b>	<b>153,557,712</b>	<b>1,574,554</b>	<b>34,305,581</b>	<b>455,734,109</b>
<b>Total liabilities</b>	<b>256,936,974</b>	<b>48,667,805</b>	<b>55,306,492</b>	<b>253,316</b>	<b>29,537,536</b>	<b>390,702,123</b>
- Customers' deposits	241,629,605	46,943,514	9,086,039	3,779	19,989,731	317,652,668
Total operating income from external customers	3,262,676	3,028,846	1,882,101	403,848	862,324	9,439,795
- Intersegment operating income (expense)	830,977	(1,079,340)	297,303	-	(48,940)	-
<b>Total operating income</b>	<b>4,093,653</b>	<b>1,949,506</b>	<b>2,179,404</b>	<b>403,848</b>	<b>813,384</b>	<b>9,439,795</b>
of which:						
- Net special commission income	3,382,718	1,528,353	1,423,842	3,945	653,147	6,992,005
- Fee income from banking services, net	653,515	422,344	74,046	389,267	122,096	1,661,268
<b>Total operating expenses</b>	<b>2,111,277</b>	<b>570,174</b>	<b>329,798</b>	<b>177,061</b>	<b>595,558</b>	<b>3,783,868</b>
of which:						
- Depreciation/amortisation of property, equipment and software	199,858	39,770	24,253	7,481	39,545	310,907
- Impairment charge for financing and advances losses, net	72,681	75,621	10,439	-	174,230	332,971
- Impairment charge on investments, net	-	-	84,203	-	879	85,082
<b>Other non-operating (expenses), net</b>	<b>(13,481)</b>	<b>(12,511)</b>	<b>(14,285)</b>	<b>-</b>	<b>37,743</b>	<b>(2,534)</b>
<b>Net income for the period before Zakat and income tax</b>	<b>1,968,895</b>	<b>1,366,821</b>	<b>1,835,321</b>	<b>226,787</b>	<b>255,569</b>	<b>5,653,393</b>

**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**17. DETERMINATION OF FAIR VALUE 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 instrument;

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 hierarchy.

<b>30 June 2019 (Unaudited)</b>				
<b>SAR'000</b>				
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	5,339,018	-	5,339,018
Financial assets held at FVIS	886,791	4,972,553	1,504,877	7,364,221
Financial assets held at FVOCI	47,528,370	6,889,493	149,479	54,567,342
Investments held at amortised cost, net				
- fair value hedged	-	7,215,565	-	7,215,565
<b>Total</b>	<b>48,415,161</b>	<b>24,416,629</b>	<b>1,654,356</b>	<b>74,486,146</b>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	5,977,258	-	5,977,258
<b>Total</b>	<b>-</b>	<b>5,977,258</b>	<b>-</b>	<b>5,977,258</b>

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**17. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)**

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

31 December 2018 (Audited)				
SAR'000				
	Level 1	Level 2	Level 3	Total
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	3,913,049	-	3,913,049
Financial assets held at FVIS	640,321	3,545,092	769,460	4,954,873
Financial assets held at FVOCI	38,922,362	8,760,058	151,235	47,833,655
Investments held at amortised cost, net - fair value hedged	-	7,888,270	-	7,888,270
<b>Total</b>	<b>39,562,683</b>	<b>24,106,469</b>	<b>920,695</b>	<b>64,589,847</b>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	3,279,130	-	3,279,130
<b>Total</b>	<b>-</b>	<b>3,279,130</b>	<b>-</b>	<b>3,279,130</b>

30 June 2018 (Unaudited)				
SAR'000				
	Level 1	Level 2	Level 3	Total
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	3,799,256	-	3,799,256
Financial assets held at FVIS	714,968	2,967,168	589,973	4,272,109
Financial assets held at FVOCI	37,801,807	6,374,687	48,668	44,225,162
Investments held at amortised cost, net - fair value hedged	-	6,734,540	-	6,734,540
<b>Total</b>	<b>38,516,775</b>	<b>19,875,651</b>	<b>638,641</b>	<b>59,031,067</b>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	2,807,846	-	2,807,846
<b>Total</b>	<b>-</b>	<b>2,807,846</b>	<b>-</b>	<b>2,807,846</b>

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**The National Commercial Bank**  
(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (UNAUDITED)**

**17. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)**

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

The fair value of financing and advances, net amounts to SAR 289,923 million (31 December 2018: SAR 273,757 million and 30 June 2018: SAR 276,593 million).

The fair values of due from banks and other financial institutions, investments held at amortised cost, due to banks and other financial institutions, customers deposits and debt securities issued at 30 June 2019, 31 December 2018 and 30 June 2018 approximate their carrying values.

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

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

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying financial instruments classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted debt securities and derivative financial instruments, the Group obtains fair value estimates from reputable third party valuers, who use techniques such as discounted cash flows, option pricing models and other sophisticated models.

**d. Transfer between Level 1 and Level 2 of the fair value hierarchy**

There were no transfers between level 1 and level 2 during 30 June 2019 (31 December 2018: Nil and 30 June 2018: Nil).

**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.

	<b>30 June 2019 (Unaudited) SAR '000</b>	<b>30 June 2018 (Unaudited) SAR '000</b>
<b>Movement of level 3 is as follows:</b>		
Balance at beginning of the period	920,695	476,519
Total gains (realized and unrealized) in consolidated statement of income	288,831	(18,789)
Purchases	524,104	279,534
(Sales)	(78,644)	(98,623)
Others	(630)	-
<b>Balance at end of the period</b>	<b>1,654,356</b>	<b>638,641</b>

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Eid

(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2019 (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 3 - 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 3 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		
	30 June 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	30 June 2018 (Unaudited) SAR '000
Credit risk	334,054,803	311,702,968	314,865,380
Operational risk	34,688,148	35,113,912	34,694,300
Market risk	16,629,043	13,372,313	11,536,150
<b>Total Pillar-1 - risk weighted assets</b>	<b>385,371,994</b>	<b>360,189,193</b>	<b>361,095,830</b>
Core capital (Tier 1)	68,756,274	66,613,049	65,488,827
Supplementary capital (Tier 2)	3,281,595	7,702,233	7,976,715
<b>Core and supplementary capital (Tier 1 and Tier 2)</b>	<b>72,037,869</b>	<b>74,315,282</b>	<b>73,465,542</b>
<b>Capital Adequacy Ratio (Pillar 1):-</b>			
Core capital (Tier 1)	17.8%	18.5%	18.1%
Core and supplementary capital (Tier 1 and Tier 2)	18.7%	20.6%	20.3%

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.

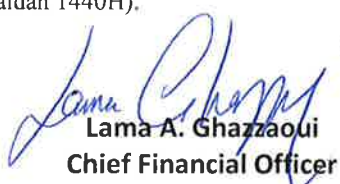
The Group uses the Standardized approach of Basel 3 to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel 3 requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

**19. COMPARATIVE FIGURES**

Except for the impact of restatement disclosed in note 2.5.2 certain other prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

**20. BOARD OF DIRECTORS' APPROVAL**

The consolidated financial statements were approved by the Board of Directors on 31 July 2019 (corresponding to 28 Dhu al-Qaidah 1440H).

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Faisal O. Al-Sakkaf  
Chief Executive Officer

  
Ziad M. Al-Tunisi  
Board of Directors' Member

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