

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED**

**31 March 2014**

**Ernst & Young**

**KPMG Al Fozan & Al Sadhan**



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>31 March 2014 (Unaudited) SR '000</b>	31 December 2013 (Audited) SR '000	31 March 2013 (Unaudited) SR '000
	<u>Notes</u>			
<b>ASSETS</b>				
Cash and balances with SAMA		<b>48,097,225</b>	39,089,688	36,777,000
Due from banks and other financial institutions		<b>15,231,237</b>	14,831,332	12,979,869
Investments, net	3	<b>148,252,861</b>	125,294,012	128,025,499
Loans and advances, net	4	<b>197,391,419</b>	187,687,037	170,633,954
Investments in associates, net	5	<b>609,336</b>	828,915	831,386
Other real estate, net		<b>221,659</b>	216,001	222,453
Property and equipment, net		<b>2,785,038</b>	2,761,528	2,536,232
Goodwill and other intangible assets, net		<b>835,275</b>	873,636	1,125,703
Other assets		<b>6,922,768</b>	5,698,185	4,888,221
<b>Total assets</b>		<b>420,346,818</b>	377,280,334	358,020,317
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		<b>26,446,977</b>	24,725,314	32,170,788
Customers' deposits	6	<b>333,070,624</b>	300,601,675	276,683,636
Debt securities issued	7	<b>6,685,780</b>	1,511,250	-
Other liabilities		<b>10,234,216</b>	7,905,915	8,852,883
<b>Total liabilities</b>		<b>376,437,597</b>	334,744,154	317,707,307
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>				
Share capital		<b>15,000,000</b>	15,000,000	15,000,000
Proposed bonus shares	15	<b>5,000,000</b>	-	-
Treasury shares	8	<b>(177,093)</b>	(177,093)	(177,093)
Statutory reserve		<b>15,102,989</b>	15,102,989	13,623,678
Other reserves (cumulative changes in fair values)		<b>1,731,269</b>	1,353,948	1,803,152
Retained earnings		<b>7,234,478</b>	9,699,260	9,392,719
Proposed dividend		-	1,645,573	-
Foreign currency translation reserve		<b>(1,658,675)</b>	(1,690,770)	(1,153,521)
<b>Total equity attributable to equity holders of the Bank</b>		<b>42,232,968</b>	40,933,907	38,488,935
<b>NON-CONTROLLING INTERESTS</b>		<b>1,676,253</b>	1,602,273	1,824,075
<b>Total equity</b>		<b>43,909,221</b>	42,536,180	40,313,010
<b>Total liabilities and equity</b>		<b>420,346,818</b>	377,280,334	358,020,317

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

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

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

	<u>Notes</u>	2014 <u>SR '000</u>	2013 <u>SR '000</u>
Special commission income		3,133,032	2,954,857
Special commission expense		(487,146)	(421,812)
<b>Net special commission income</b>		<b>2,645,886</b>	<b>2,533,045</b>
Fee income from banking services, net		794,138	863,940
Exchange income, net		178,599	153,371
Income from FVIS investments, net		28,936	64,826
Trading income, net		46,790	24,726
Dividend income		15,316	51,581
Gains on non-trading investments, net		140,046	353,653
Other operating income, net		14,580	20,630
<b>Total operating income</b>		<b>3,864,291</b>	<b>4,065,772</b>
Salaries and employees'-related expenses		785,297	711,272
Rent and premises-related expenses		153,863	151,143
Depreciation of property and equipment		115,263	116,071
Amortisation of intangible assets		47,334	47,334
Other general and administrative expenses		343,787	320,673
Impairment charge for credit losses, net		205,651	259,830
Impairment charge on investments, net		-	22,157
<b>Total operating expenses</b>		<b>1,651,195</b>	<b>1,628,480</b>
<b>Income from operations, net</b>		<b>2,213,096</b>	<b>2,437,292</b>
<b>Other income (expenses), net</b>			
Social responsibility projects		(2,026)	(16,381)
Other non-operating income (expenses), net	5	367,872	(37,627)
<b>Other income (expenses), net</b>		<b>365,846</b>	<b>(54,008)</b>
<b>Net income for the period</b>		<b>2,578,942</b>	<b>2,383,284</b>
<b>Net income for the period attributable to:</b>			
Equity holders of the Bank		2,535,306	2,331,958
Non-controlling interests		43,636	51,326
<b>Net income for the period</b>		<b>2,578,942</b>	<b>2,383,284</b>
<b>Basic and diluted earnings per share (expressed in SR per share)</b>	14	<b>1.69</b>	<b>1.56</b>

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

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

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

	<b>2014</b>	2013
	<b><u>SR '000</u></b>	<u>SR '000</u>
<b>Net income for the period</b>	<b>2,578,942</b>	2,383,284
<b>Other comprehensive income (loss) that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</b>		
Foreign currency translation reserve - gains	<b>51,653</b>	1,309
<b>Available for sale financial assets:</b>		
- Net change in fair values	<b>421,852</b>	213,680
- Transfers to interim condensed consolidated statement of income	<b>(63,217)</b>	(323,170)
- Impairment charge on available for sale investments	-	22,157
<b>Cash flow hedges:</b>		
- Effective portion of change in fair values	<b>40,831</b>	38,306
- Transfers to interim condensed consolidated statement of income	<b>(9,579)</b>	(10,036)
<b>Total comprehensive income for the period</b>	<b><u>3,020,482</u></b>	<u>2,325,530</u>
<b>Attributable to:</b>		
Equity holders of the Bank	<b>2,944,722</b>	2,271,817
Non-controlling interests	<b>75,760</b>	53,713
<b>Total comprehensive income for the period</b>	<b><u>3,020,482</u></b>	<u>2,325,530</u>

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

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

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

	Attributable to equity holders of the Bank											Total equity SR' 000
	Share capital SR' 000	Proposed bonus issue SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Other reserves		Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non- controlling interests SR' 000	
					Available for sale financial assets SR' 000	Cash flow hedge SR' 000						
Balance as at 1 January 2014	15,000,000	-	(177,093)	15,102,989	1,323,153	30,795	9,699,260	1,645,573	(1,690,770)	40,933,907	1,602,273	42,536,180
Total comprehensive income for the period	-	-	-	-	346,069	31,252	2,535,306	-	32,095	2,944,722	75,760	3,020,482
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(88)	-	-	(88)	(1,780)	(1,868)
Proposed bonus issue (see note 15)	-	5,000,000	-	-	-	-	(5,000,000)	-	-	-	-	-
Final dividend payable	-	-	-	-	-	-	-	(1,645,573)	-	(1,645,573)	-	(1,645,573)
<b>Balance as at 31 March 2014</b>	<b>15,000,000</b>	<b>5,000,000</b>	<b>(177,093)</b>	<b>15,102,989</b>	<b>1,669,222</b>	<b>62,047</b>	<b>7,234,478</b>	<b>-</b>	<b>(1,658,675)</b>	<b>42,232,968</b>	<b>1,676,253</b>	<b>43,909,221</b>
Balance as at 1 January 2013	15,000,000	-	(177,093)	13,623,678	1,765,983	91,359	7,051,299	1,495,975	(1,147,570)	37,703,631	1,700,514	39,404,145
Total comprehensive (loss)/income for the period	-	-	-	-	(82,460)	28,270	2,331,958	-	(5,951)	2,271,817	53,713	2,325,530
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	9,462	-	-	9,462	4,309	13,771
Capital injection	-	-	-	-	-	-	-	-	-	-	65,539	65,539
Final dividend payable	-	-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
<b>Balance as at 31 March 2013</b>	<b>15,000,000</b>	<b>-</b>	<b>(177,093)</b>	<b>13,623,678</b>	<b>1,683,523</b>	<b>119,629</b>	<b>9,392,719</b>	<b>-</b>	<b>(1,153,521)</b>	<b>38,488,935</b>	<b>1,824,075</b>	<b>40,313,010</b>

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

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

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

	<u>Notes</u>	<u>2014</u> <u>SR '000</u>	<u>2013</u> <u>SR '000</u>
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>2,578,942</b>	2,383,284
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium (accretion of discounts) on non-trading investments, net		56,837	27,527
(Gains) on non-trading investments, net		(140,046)	(353,653)
(Gains) on disposal of property and equipment, net		(4,564)	(4,188)
(Gain) on disposal of other real estate, net	5	(146,681)	-
Loss on disposal of other repossessed assets		3,036	3,691
Depreciation of property and equipment		115,263	115,769
Amortization of intangible assets		47,334	47,334
Impairment charge for credit losses, net		205,651	269,384
(Reversal) provision for impairment in associates	5	(251,944)	1,245
Impairment charge on investments, net		-	22,157
		<u>2,463,828</u>	<u>2,512,550</u>
<b>Net (increase)/decrease in operating assets:</b>			
Statutory deposits with SAMA		(1,800,453)	(930,568)
Due from banks and other financial institutions with original maturity of more than three months		(564,147)	2,231,250
Held as fair value through income statement (FVIS) investments		(42,396)	(6,334)
Loans and advances		(9,788,811)	(7,779,167)
Other real estate		130	7,875
Other assets		(1,060,844)	(852,694)
<b>Net increase in operating liabilities:</b>			
Due to banks and other financial institutions		1,827,420	6,663,028
Customers' deposits		32,783,756	3,418,909
Other liabilities		701,934	574,096
<b>Net cash from operating activities</b>		<u>24,520,417</u>	<u>5,838,945</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non-trading / non-FVIS investments		17,973,367	24,672,764
Purchase of non-trading / non-FVIS investments		(40,413,404)	(36,062,885)
Purchase of property and equipment		(182,222)	(105,141)
Proceeds from disposal of property and equipment		44,251	4,218
<b>Net cash (used in) investing activities</b>		<u>(22,578,008)</u>	<u>(11,491,044)</u>
<b>FINANCING ACTIVITIES</b>			
Debt securities issued	7	5,196,508	-
Net movement in non-controlling interests		(1,871)	79,308
<b>Net cash from financing activities</b>		<u>5,194,637</u>	<u>79,308</u>
Net increase (decrease) in cash and cash equivalents		7,137,046	(5,572,791)
Foreign currency translation reserve - net movement on cash and cash equivalents		(94,204)	(70,368)
Cash and cash equivalents at the beginning of the period		30,594,562	38,088,205
<b>Cash and cash equivalents at the end of the period</b>	11	<u>37,637,404</u>	<u>32,445,046</u>
Special commission received during the period		2,663,796	3,080,311
Special commission paid during the period		366,365	464,607
<b>Supplemental non-cash information</b>			
Movement in other reserve and transfers to interim condensed consolidated statement of income		389,887	69,164

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2014 and 2013 (UNAUDITED)

#### 1. GENERAL

##### (1.1) Introduction

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

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

The Bank's Head Office is located at the following

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

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

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

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

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

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

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities. The Bank has a 90.71% (2013: 90.71%) direct ownership interest in NCBC and an indirect ownership of 2.98% (2013: 0.59%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

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

The Bank has a 66.27% (2013: 66.27%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. During the year ended 31 December 2012, the shareholders of TFK, resolved to increase the capital by TL 975 million, which was subsequently endorsed by the Central Bank of Turkey (BRSA). Accordingly, the share capital of Turkish Bank has been increased to TL 1,775 million through capitalization of retained earnings and cash contribution. The Bank's share of such cash contribution was TL 206 million (SR 431 million).



# **The National Commercial Bank**

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

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### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### **31 March 2014 and 2013 (UNAUDITED)**

#### **1. GENERAL (continued)**

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

###### **(c) Eastgate Capital Holdings Inc. (Eastgate)**

The Group has a 65.59% (2013: 70.30%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC acquired a 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate. On 5 September 2013, NCBC disposed of 7% of its ownership interest in Eastgate Capital Holdings Inc. for a consideration of SR 656 thousands, without losing control.

###### **(d) NCBC Investment Management Umbrella Company Plc**

The Group has a 93.7% (2013: 91.3%) effective ownership in NCBC Investment Management Umbrella Company Plc, which was formed by NCBC in Ireland. NCBC Investment Management Umbrella Company Plc is the Undertaking Company for Collective Investment in Transferable Securities (UCITS) under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011.

###### **(e) Real Estate Development Company (Redco)**

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (2013: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralized real estate properties on behalf of the Bank.

#### **2. BASIS OF PREPARATION**

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

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard (IAS) 34 - Interim Financial Reporting. The Bank prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013.

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2013.

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

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS), and available for sale investments. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

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

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

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 31 March 2014 and 2013 (UNAUDITED)

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

##### (2.4) Basis of consolidation

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

##### (a) Subsidiaries

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

- i) the Group has power over an entity;
- ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
- iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

##### (b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### (c) Associates

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

Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

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

##### (d) Transactions eliminated on consolidation

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (UNAUDITED)**

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

(2.5) **Accounting policies**

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2013 except for the adoption of the following new standards and other amendments to existing standards mentioned below which had no financial impact on the interim condensed consolidated financial statements of the Group for current period or prior period and are expected to have an insignificant effect in future periods:

**Amendments to existing standards**

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

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

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

**31 March 2014 and 2013 (UNAUDITED)**

**3. INVESTMENTS, NET**

	<b>31 March 2014 (Unaudited) SR '000</b>	31 December 2013 (Audited) SR '000	31 March 2013 (Unaudited) SR '000
Held as FVIS (Fair Value through Income Statement)	2,787,486	2,745,092	2,704,423
Available for sale, net	27,709,025	27,661,828	27,169,473
Held to maturity, net	1,641,174	1,030,246	1,032,996
Other investments held at amortized cost, net	116,115,176	93,856,846	97,118,607
<b>Total</b>	<b>148,252,861</b>	<b>125,294,012</b>	<b>128,025,499</b>

FVIS investments above include investments held for trading amounting to SR 711 million (31 December 2013: SR 673 million and 31 March 2013: SR 646 million).

Other investments held at amortized cost include investments having an amortized cost of SR 4,547 million (31 December 2013: Nil and 31 March 2013: Nil) which are held under a fair value hedge relationship. As at 31 March 2014, the fair value of these investments amounts to SR 4,537 million (31 December 2013: Nil and 31 March 2013: Nil).

**4. LOANS AND ADVANCES, NET**

	<b>31 March 2014 (Unaudited) SR '000</b>	31 December 2013 (Audited) SR '000	31 March 2013 (Unaudited) SR '000
Credit cards	2,490,420	2,421,326	2,073,482
Consumer	63,802,463	60,344,450	54,349,901
Corporate	129,284,454	122,202,506	114,948,666
Others	3,751,276	4,641,490	1,393,832
Performing loans and advances	199,328,613	189,609,772	172,765,881
Non-performing loans and advances	2,828,139	2,919,447	4,512,431
<b>Total loans and advances</b>	<b>202,156,752</b>	<b>192,529,219</b>	<b>177,278,312</b>
Provision for credit losses	(4,765,333)	(4,842,182)	(6,644,358)
<b>Loans and advances, net</b>	<b>197,391,419</b>	<b>187,687,037</b>	<b>170,633,954</b>

**5. INVESTMENT IN ASSOCIATES, NET**

During the period ended 31 March 2014, an associate of the Bank (Al Behar Real Estate Investment Company ("the associate")) distributed its capital among the shareholders as a part of its liquidation process and as a consideration transferred the title of certain real estate properties to the Bank. Accordingly, the Bank received properties having a value of SR 473.4 million, as a result of this, the Bank has reversed previously recognized impairment losses in respect of the associate amounting to SR 253.7 million. Subsequent to the transfer of legal title, the Bank has leased these properties ("leased properties") under an Ijara arrangement for a period of 5 years and recognized a gain on derecognition of the leased properties amounting to SR 146.6 million which is recognised in the interim condensed consolidated statement of income as a part of 'other non-operating income (expenses), net'.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2014 and 2013 (UNAUDITED)

6. CUSTOMERS' DEPOSITS

	<b>31 March 2014 (Unaudited) SR '000</b>	31 December 2013 (Audited) SR '000	31 March 2013 (Unaudited) SR '000
Current accounts	<b>257,699,905</b>	234,988,516	213,706,298
Savings	<b>151,895</b>	148,015	146,198
Time	<b>49,470,792</b>	53,095,364	51,334,043
Others	<b>25,748,032</b>	12,369,780	11,497,097
<b>Total</b>	<b>333,070,624</b>	300,601,675	276,683,636

7. DEBT SECURITIES ISSUED

During the period ended 31 March 2014, the Bank has issued 10 years floating rate Sukuk amounting to SR 5 billion through private placement. The Sukuk is callable by Bank on the 5th anniversary of the issue date and carries profit at SIBOR plus 100bps payable semi-annually.

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

8. TREASURY SHARES

During 2009, the Bank acquired its own equity shares from a customer as a result of partial set-off of debt.

9. DERIVATIVES

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

	<u>31 March 2014 (Unaudited)</u>			<u>31 December 2013 (Audited)</u>			<u>31 March 2013(Unaudited)</u>		
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
<b>Held for trading:</b>									
Special commission rate swaps	203,645	(185,275)	29,869,590	197,790	(187,164)	18,630,107	141,035	(126,649)	8,752,792
Forward foreign exchange contracts	97,447	(42,682)	71,733,442	117,001	(90,446)	59,929,689	72,715	(64,409)	55,477,937
Options	6,007	(6,007)	790,060	1,860	(1,860)	660,509	23,434	(23,434)	3,532,825
Structured derivatives	164,985	(165,420)	54,696,006	155,251	(155,664)	42,491,314	84,024	(83,958)	33,748,593
<b>Held as fair value hedges:</b>									
Special commission rate swaps	18,517	(158,113)	5,564,445	-	(155,041)	843,750	-	(203,648)	843,750
<b>Held as cash flow hedges:</b>									
Special commission rate swaps	54,040	(37,082)	8,047,451	31,831	(48,246)	7,349,059	128,736	(13,465)	8,450,796
<b>Total</b>	<b>544,641</b>	<b>(594,579)</b>	<b>170,700,994</b>	<b>503,733</b>	<b>(638,421)</b>	<b>129,904,428</b>	<b>449,944</b>	<b>(515,563)</b>	<b>110,806,693</b>

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (UNAUDITED)**

**10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

	<b>31 March 2014 (Unaudited) SR '000</b>	31 December 2013 (Audited) SR '000	31 March 2013 (Unaudited) SR '000
Letters of credit	22,743,744	20,473,480	18,482,919
Guarantees	48,960,401	48,153,836	49,278,113
Acceptances	3,476,578	3,381,020	4,046,976
Irrevocable commitments to extend credit	7,675,129	9,665,846	9,533,100
<b>Total</b>	<b>82,855,852</b>	<b>81,674,182</b>	<b>81,341,108</b>

**11. CASH AND CASH EQUIVALENTS**

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

	<b>31 March 2014 (Unaudited) SR '000</b>	31 December 2013 (Audited) SR '000	31 March 2013 (Unaudited) SR '000
Cash and balances with SAMA excluding statutory deposits	29,492,309	22,285,224	21,295,927
Due from banks and other financial institutions with original maturity of three months or less	8,145,095	8,309,338	11,149,119
<b>Total</b>	<b>37,637,404</b>	<b>30,594,562</b>	<b>32,445,046</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (UNAUDITED)**

**12. OPERATING SEGMENTS**

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

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

- |                       |   |  |
|-----------------------|---|--|
| <b>Retail</b>         | - | Provides banking services, including lending and current accounts in addition to products in compliance with <i>Shariah</i> rules which are supervised by the independent <i>Shariah</i> Board, to individuals and private banking customers.  |
| <b>Corporate</b>      | - | Provides banking services including all conventional credit-related products and financing products in compliance with <i>Shariah</i> rules to small sized businesses medium and large establishments and companies.   |
| <b>Treasury</b>       | - | Provides a full range of treasury 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 overseas subsidiaries and Beirut branch.  |

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

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





**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (UNAUDITED)**

**13. LEGAL PROCEEDINGS**

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

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

Although the judgment dismissing plaintiffs' claims against the Bank became final upon denial of the petition for rehearing, the plaintiffs on 9 September 2013 sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition to the United States Supreme Court for a writ of certiorari. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common brief in opposition to the plaintiffs' petition for certiorari, which was filed in November 2013. In an order entered on 16 December 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S. government, a process that is likely to take several months. The Bank's legal counsel expects that the Supreme Court ultimately will deny plaintiffs' petition because the judgment dismissing the claims against the Bank has a strong basis in both law and fact as recognized by the Court of Appeals in its 16 April 2013 decision. The Supreme Court denied plaintiffs' earlier petition for certiorari involving the dismissal of claims against several Saudi government defendants, after inviting the Solicitor General to submit the views of the U.S. government.

On 25 February 2014, representatives of the Solicitor General and of other U.S. government agencies met with counsel for the Bank, for other defendants, and for the plaintiffs to obtain information to assist the Solicitor General in submitting the views of the U.S. government as requested by the Supreme Court. The Bank expects that the Solicitor General will submit the views of the U.S. government to the Court by late May 2014 in order to allow the Court to reach a final decision either granting or denying the Petition for Certiorari before the Court finishes its Term at the end of June. If the Petition is granted, then the case would be set for briefing on the merits and oral argument during the Term that begins in October 2014.

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

Basic earnings per share for the periods ended 31 March 2014 and 31 March 2013 is calculated by dividing the net income attributable to equity holders of the Bank for the periods by the weighted average number of shares outstanding during the periods.

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

**15. SHARE CAPITAL**

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through the capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 March 2014). The proposed increase was approved in the shareholders' extraordinary general assembly meeting, held on 31 March 2014 (corresponding to 30 Jumada Awal 1434H). The proposed bonus issue is subject to the approval of SAMA and Ministry of Commerce and Industry.

In the extraordinary general assembly meeting they approved an initial public offering (IPO) of 15% of the Bank's share capital (after capital increase). The shares offered for the IPO will be contributed by a majority shareholder of the Bank and is subject to required regulatory approvals.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (UNAUDITED)**

**16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

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

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

	31 March 2014 (Unaudited)		31 March 2013 (Unaudited)	
	SR '000		SR '000	
	Carrying amount	Fair value	Carrying amount	Fair value
Held to maturity, net	1,641,174	1,713,281	1,032,996	1,143,107
Other investments held at amortized cost, net	116,115,176	116,943,600	97,118,607	99,265,194
<b>Total</b>	<b>117,756,350</b>	<b>118,656,881</b>	<b>98,151,603</b>	<b>100,408,301</b>

**17. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;
- Level 2: quoted prices in active markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 March 2014	(SR '000)			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivative financial instruments	-	544,641	-	544,641
Financial assets designated at FVIS	7,116	1,600,622	468,854	2,076,592
Financial assets available for sale	13,488,298	13,148,224	1,072,503	27,709,025
Held for trading	710,894	-	-	710,894
Other investments held at amortized cost, net - fair value hedged	-	4,537,016	-	4,537,016
<b>Total</b>	<b>14,206,308</b>	<b>19,830,503</b>	<b>1,541,357</b>	<b>35,578,168</b>
<b>Financial liabilities</b>				
Derivative financial instruments	-	594,579	-	594,579
<b>Total</b>	<b>-</b>	<b>594,579</b>	<b>-</b>	<b>594,579</b>

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (UNAUDITED)**

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

	<u>(SR '000)</u>			
31 March 2013	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	449,944	-	449,944
Financial assets designated at FVIS		1,874,327	184,274	2,058,601
Financial assets available for sale	15,121,922	10,759,074	1,288,477	27,169,473
Held for trading	645,822	-	-	645,822
Total	<u>15,767,744</u>	<u>13,083,345</u>	<u>1,472,751</u>	<u>30,323,840</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	515,563	-	515,563
Total	<u>-</u>	<u>515,563</u>	<u>-</u>	<u>515,563</u>

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

	<b>31 March</b>	31 March
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b><u>SR '000</u></b>	<u>SR '000</u>
Balance as at 1 January	<b>1,546,060</b>	1,606,133
Total gains/(losses) in the interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income	<b>8,634</b>	(75,348)
Purchases	<b>495</b>	378
(Sales)	<b>(13,832)</b>	(57,112)
(Settlements)	-	(1,300)
<b>Balance as at 31 March</b>	<b><u>1,541,357</u></b>	<u>1,472,751</u>

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2014 and 2013 (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 position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires Banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	<b>Risk weighted assets</b>		
	<b>31 March 2014 (Unaudited) SR 000</b>	31 December 2013 (Audited) SR 000	31 March 2013 (Unaudited) SR 000
Credit risk	<b>243,741,655</b>	226,641,233	214,656,613
Operational risk	<b>24,943,868</b>	24,479,624	24,105,385
Market risk	<b>6,725,977</b>	5,707,726	6,080,227
<b>Total Pillar-1 - risk weighted assets</b>	<b>275,411,500</b>	256,828,583	244,842,225
Core capital (Tier 1)	<b>42,862,405</b>	41,630,086	39,154,849
Supplementary capital (Tier 2)	<b>7,296,452</b>	2,375,797	2,553,175
Core and supplementary capital (Tier 1 and Tier 2)	<b>50,158,857</b>	44,005,883	41,708,024
<b>Capital Adequacy Ratio (Pillar 1):-</b>			
Core capital (Tier 1)	<b>15.6%</b>	16.2%	16.0%
Core and supplementary capital (Tier 1 and Tier 2)	<b>18.2%</b>	17.1%	17.0%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, retained earnings and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The amounts and ratios disclosed above have been calculated based on Basel III.

**19. Basel III - CAPITAL STRUCTURE**

Certain disclosures on the Bank's capital structure are required to be published on Bank's website. These disclosures will be published on the Bank's website [www.alahli.com](http://www.alahli.com) as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank.

**20. COMPARATIVE FIGURES**

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

**21. BOARD OF DIRECTORS' APPROVAL**

The interim condensed consolidated financial statements were approved by the Board of Directors on 24 April 2014 (corresponding to 24 Jumada Al-Akhirah 1435H).