

**THE NATIONAL COMMERCIAL BANK**

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED  
30 JUNE 2016**



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Kingdom of Saudi Arabia  
License No. 46/11/323 issued 11/3/1992

### Report on Review of Interim Condensed Consolidated Financial Statements

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

#### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2016 and the related interim condensed consolidated statements of income and comprehensive income for the three months and six months periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the six months period then ended and the notes from 1 to 21, which form an integral part of these interim condensed consolidated financial statements. We have not reviewed note 19, nor the information related to "Disclosures under Basel III framework" cross-referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

#### **Scope of review**

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

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.

#### **Other regulatory matters**

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

For Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
Registration No. 356



For KPMG Al Fozan & Partners  
Certified Public Accountants

Ebrahim Oboud Baeshen  
Certified Public Accountant  
Registration No. 382



22 Shawwal 1437H  
27 July 2016  
Jeddah

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		30 June 2016 (Unaudited) SR '000	31 December 2015 (Audited) SR '000	30 June 2015 (Unaudited) SR '000
	Notes			
<b>ASSETS</b>				
Cash and balances with SAMA		31,427,912	27,559,154	33,102,444
Due from banks and other financial institutions		24,724,522	20,147,962	29,838,694
Investments, net	3	114,727,592	134,102,445	151,141,800
Financing and advances, net	4	264,765,969	252,940,091	234,281,556
Positive fair value of derivatives, net	7	2,949,461	2,682,982	1,509,743
Investments in associates, net		426,489	423,740	407,835
Other real estate, net		881,616	876,264	845,743
Property and equipment, net		3,835,242	3,716,091	3,756,844
Goodwill and other intangible assets, net		434,220	470,282	557,883
Other assets		8,498,756	6,421,418	5,963,118
<b>Total assets</b>		<b>452,671,779</b>	<b>449,340,429</b>	<b>461,405,660</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		54,958,292	47,777,582	30,402,974
Customers' deposits	5	314,707,937	323,459,669	360,977,002
Debt securities issued	6	10,223,298	9,940,717	10,144,516
Negative fair value of derivatives, net	7	3,405,379	3,252,744	1,947,495
Other liabilities		9,672,635	9,364,160	7,425,471
<b>Total liabilities</b>		<b>392,967,541</b>	<b>393,794,872</b>	<b>410,897,458</b>
<b>EQUITY</b>				
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>				
Share capital		20,000,000	20,000,000	20,000,000
Treasury shares	15	-	(190,510)	(190,510)
Statutory reserve		19,383,697	19,383,697	17,172,081
Other reserves (cumulative changes in fair values)		1,096,001	726,547	1,305,096
Retained earnings		14,767,969	9,833,777	12,260,758
Proposed dividend		-	1,495,975	-
Foreign currency translation reserve		(2,701,401)	(2,787,000)	(2,530,036)
<b>Equity attributable to shareholders of the Bank</b>		<b>52,546,266</b>	<b>48,462,486</b>	<b>48,017,389</b>
Tier 1 Sukuk	12	5,700,000	5,700,000	1,000,000
<b>Equity attributable to equity holders of the Bank</b>		<b>58,246,266</b>	<b>54,162,486</b>	<b>49,017,389</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>1,457,972</b>	<b>1,383,071</b>	<b>1,490,813</b>
<b>Total equity</b>		<b>59,704,238</b>	<b>55,545,557</b>	<b>50,508,202</b>
<b>Total liabilities and equity</b>		<b>452,671,779</b>	<b>449,340,429</b>	<b>461,405,660</b>

A.A.

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Saeed M. Al-Ghamdi  
Chief Executive Officer

  
Mansour S. Al Maiman  
Chairman

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

	<u>Note</u>	For the three months ended		For the six months ended	
		2016 (Unaudited) SR '000	2015 (Unaudited) SR '000	2016 (Unaudited) SR '000	2015 (Unaudited) SR '000
Special commission income		4,221,100	3,731,985	8,358,666	7,421,444
Special commission expense		(839,602)	(609,270)	(1,641,964)	(1,265,169)
<b>Net special commission income</b>		<b>3,381,498</b>	<b>3,122,715</b>	<b>6,716,702</b>	<b>6,156,275</b>
Fee income from banking services, net		910,493	864,437	1,829,585	1,699,805
Exchange income, net		293,253	260,800	568,696	502,130
Income (loss) from FVIS investments, net		10,471	(28)	(43,349)	83,392
Trading income (loss), net		57,634	(4,761)	108,538	99,689
Dividend income		54,855	44,108	79,859	111,443
Gains on non-trading investments, net		44,093	106,607	274,477	305,354
Other operating (expenses), net		(123,695)	(110,952)	(212,046)	(227,621)
<b>Total operating income</b>		<b>4,628,602</b>	<b>4,282,926</b>	<b>9,322,462</b>	<b>8,730,467</b>
Salaries and employee-related expenses		903,906	860,389	1,765,672	1,854,531
Rent and premises-related expenses		200,628	173,601	391,258	342,116
Depreciation of property and equipment		169,511	154,619	333,992	297,153
Amortisation of intangible assets		47,334	47,334	94,668	94,668
Other general and administrative expenses		469,168	396,586	873,333	633,855
Impairment charge for financing and advances losses, net		381,295	278,848	727,920	497,175
Impairment charge on investments, net		12,010	-	13,150	686
<b>Total operating expenses</b>		<b>2,183,852</b>	<b>1,911,377</b>	<b>4,199,993</b>	<b>3,720,184</b>
<b>Income from operations, net</b>		<b>2,444,750</b>	<b>2,371,549</b>	<b>5,122,469</b>	<b>5,010,283</b>
<b>Other expenses</b>					
Other non-operating income (expenses), net		14,620	(6,167)	(9,375)	(22,001)
<b>Net other income (expenses)</b>		<b>14,620</b>	<b>(6,167)</b>	<b>(9,375)</b>	<b>(22,001)</b>
<b>Net income for the period</b>		<b>2,459,370</b>	<b>2,365,382</b>	<b>5,113,094</b>	<b>4,988,282</b>
<b>Net income for the period attributable to:</b>					
Equity holders of the Bank		2,437,541	2,362,917	5,068,355	4,968,487
Non-controlling interests		21,829	2,465	44,739	19,795
<b>Net income for the period</b>		<b>2,459,370</b>	<b>2,365,382</b>	<b>5,113,094</b>	<b>4,988,282</b>
<b>Basic and diluted earnings per share (expressed in SR per share)</b>	11	<b>1.21</b>	<b>1.18</b>	<b>2.53</b>	<b>2.49</b>

  
**Lama A. Ghazzaoui**  
 Chief Financial Officer

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

  
**Mansour S. Al Maiman**  
 Chairman

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

	For the three months ended		For the six months ended	
	2016	2015	2016	2015
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
<b>Net income for the period</b>	<b>2,459,370</b>	<b>2,365,382</b>	<b>5,113,094</b>	<b>4,988,282</b>
<b>Other comprehensive (loss) income items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</b>				
Foreign currency translation reserve (losses) gains	(77,703)	(98,846)	125,289	(678,189)
<b>Available for sale financial assets:</b>				
- Net change in fair values	109,292	(349,649)	456,623	(123,233)
- Transfers to interim condensed consolidated statement of income	36,149	(45,759)	(94,686)	(146,749)
- Impairment charge on available for sale investments	-	-	-	686
<b>Cash flow hedges:</b>				
- Effective portion of change in fair values	10,708	15,886	92,982	(26,805)
- Net transfers to interim condensed consolidated statement of income	(3,657)	(31,337)	(97,210)	(33,998)
<b>Total other comprehensive income</b>	<b>74,789</b>	<b>(509,705)</b>	<b>482,998</b>	<b>(1,008,288)</b>
<b>Total comprehensive income for the period</b>	<b>2,534,159</b>	<b>1,855,677</b>	<b>5,596,092</b>	<b>3,979,994</b>
<b>Attributable to:</b>				
Equity holders of the Bank	2,526,049	1,891,496	5,523,408	4,179,928
Non-controlling interests	8,110	(35,819)	72,684	(199,934)
<b>Total comprehensive income for the period</b>	<b>2,534,159</b>	<b>1,855,677</b>	<b>5,596,092</b>	<b>3,979,994</b>


  
**Lama A. Ghazzouli**  
 Chief Financial Officer

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

  
**Mansour S. Al Maiman**  
 Chairman

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

Notes	Attributable to equity holders of the Bank													
	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Other reserves				Foreign currency translation reserve SR' 000	Total equity attributable to shareholders of the Bank SR' 000	Tier 1 Sukuk SR' 000	Total equity attributable to equity holders of the Bank SR' 000	Non-controlling interests SR' 000	Total equity SR' 000	
				Available for sale financial assets reserve SR' 000	Cash flow hedge reserves SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000							
Balance as at 1 January 2016	20,000,000	(190,510)	19,383,697	729,084	(2,537)	9,833,777	1,495,975	(2,787,000)	48,462,486	5,700,000	54,162,486	1,383,071	55,545,557	
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	-	85,599	85,599	-	85,599	39,690	125,289	
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	-	88,991	-	88,991	3,991	92,982	
Net changes in fair value of cash flow hedges	-	-	-	472,359	-	-	-	-	472,359	-	472,359	(15,736)	456,623	
Net changes in fair values of available for sale investments	-	-	-	(94,686)	(97,210)	-	-	-	(191,896)	-	(191,896)	-	(191,896)	
Net transfers to interim condensed consolidated statement of income	-	-	-	-	-	5,068,355	-	-	5,068,355	-	5,068,355	44,739	5,113,094	
Net income for the period	-	-	-	377,673	(8,219)	5,068,355	-	85,599	5,523,408	-	5,523,408	72,684	5,596,092	
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	(294)	-	-	(294)	-	(294)	2,217	1,923	
Premium on acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	
Disposal of treasury shares	15	190,510	-	-	-	-	-	-	190,510	-	190,510	-	190,510	
Gain on disposal of treasury shares	15	-	-	-	-	8,717	-	-	8,717	-	8,717	-	8,717	
Tier 1 Sukuk related costs	12	-	-	-	-	(138,561)	-	-	(138,561)	-	(138,561)	-	(138,561)	
Adjustments in proposed final dividend for 2015	-	-	-	-	-	(4,025)	4,025	-	-	-	-	-	-	
Final dividend paid for 2015	-	-	-	-	-	-	(1,500,000)	-	(1,500,000)	-	(1,500,000)	-	(1,500,000)	
<b>Balance as at 30 June 2016</b>	<b>20,000,000</b>	<b>-</b>	<b>19,383,697</b>	<b>1,106,757</b>	<b>(10,756)</b>	<b>14,767,969</b>	<b>-</b>	<b>(2,701,401)</b>	<b>52,546,266</b>	<b>5,700,000</b>	<b>58,246,266</b>	<b>1,457,972</b>	<b>59,704,238</b>	
Balance as at 1 January 2015	20,000,000	(190,510)	17,172,081	1,580,874	37,014	7,371,935	1,296,512	(2,054,269)	45,213,637	-	45,213,637	1,707,254	46,920,891	
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	(475,767)	(475,767)	-	(475,767)	(202,422)	(678,189)	
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	-	(18,520)	-	(18,520)	(8,285)	(26,805)	
Net changes in fair value of cash flow hedges	-	-	-	(114,211)	-	-	-	-	(114,211)	-	(114,211)	(9,022)	(123,233)	
Net changes in fair values of available for sale investments	-	-	-	(146,063)	(33,998)	-	-	-	(180,061)	-	(180,061)	-	(180,061)	
Net transfers to interim condensed consolidated statement of income	-	-	-	-	-	4,968,487	-	-	4,968,487	-	4,968,487	19,795	4,988,282	
Net income for the period	-	-	-	(260,274)	(52,518)	4,968,487	-	(475,767)	4,179,928	-	4,179,928	(199,934)	3,979,994	
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	2,278	-	-	2,278	-	2,278	(15,570)	(13,292)	
Premium on acquisition of non-controlling interests	1.2(b)	-	-	-	-	(21,977)	-	-	(21,977)	-	(21,977)	(937)	(22,914)	
Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	-	-	-	-	
Issuance cost of Tier 1 Sukuk	-	-	-	-	-	(1,952)	-	-	(1,952)	1,000,000	998,048	-	998,048	
Zakat - NCB	-	-	-	-	-	(58,013)	-	-	(58,013)	-	(58,013)	-	(58,013)	
Final dividend paid for 2014	-	-	-	-	-	-	(1,296,512)	-	(1,296,512)	-	(1,296,512)	-	(1,296,512)	
<b>Balance as at 30 June 2015</b>	<b>20,000,000</b>	<b>(190,510)</b>	<b>17,172,081</b>	<b>1,320,600</b>	<b>(15,504)</b>	<b>12,260,758</b>	<b>-</b>	<b>(2,530,036)</b>	<b>48,017,389</b>	<b>1,000,000</b>	<b>49,017,389</b>	<b>1,490,813</b>	<b>50,508,202</b>	

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Saeed M. Al-Ghamdi  
Chief Executive Officer

  
Mansour S. Al Maiman  
Chairman

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

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

	<u>Notes</u>	<u>2016</u> <u>SR' 000</u>	<u>2015</u> <u>SR' 000</u>
<b>OPERATING ACTIVITIES</b>			
Net income for the period		5,113,094	4,988,282
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		257,233	213,081
(Gains) on non-trading investments, net		(274,477)	(305,354)
(Gains) on disposal of property and equipment, net		(34,599)	(10,922)
(Gains) on disposal of other real estate, net		(3,985)	(606)
Loss on disposal of other repossessed assets		30,040	8,671
Depreciation of property and equipment		333,992	297,153
Amortisation of intangible assets		94,668	94,668
Impairment charge for financing and advances losses, net		727,920	497,175
(Reversal) of impairment allowance and share of results of associates		(2,749)	-
Impairment charge on investments, net		13,150	686
		<u>6,254,287</u>	<u>5,782,834</u>
<b>Net decrease/(increase) in operating assets:</b>			
Statutory deposits with SAMA		955,806	(1,883,497)
Due from banks and other financial institutions with original maturity of more than three months		2,480,727	(8,623,637)
Held as fair value through income statement (FVIS) investments		449,501	(115,441)
Financing and advances, net		(12,564,778)	(18,136,256)
Other real estate		75,864	26,410
Positive fair value of derivatives		(266,479)	(470,695)
Other assets		(1,796,048)	(2,179,625)
<b>Net (decrease)/increase in operating liabilities:</b>			
Due to banks and other financial institutions		7,085,100	(3,451,532)
Customers' deposits		(9,111,445)	31,446,789
Negative fair value of derivatives		152,635	586,788
Other liabilities		389,296	(478,359)
		<u>(5,895,534)</u>	<u>2,503,779</u>
<b>Net cash (used in) from operating activities</b>			
		<u>(5,895,534)</u>	<u>2,503,779</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non-trading / non-FVIS investments		43,446,014	40,866,591
Purchase of non-trading / non-FVIS investments		(24,110,051)	(38,603,556)
Purchase of property and equipment		(1,072,889)	(702,440)
Proceeds from disposal of property and equipment		661,594	11,128
		<u>18,924,668</u>	<u>1,571,723</u>
<b>Net cash from investing activities</b>			
		<u>18,924,668</u>	<u>1,571,723</u>
<b>FINANCING ACTIVITIES</b>			
Net movement in debt securities	6	205,311	1,165,258
Net movement in non-controlling interests		1,927	(35,838)
Tier 1 Sukuk related costs		(138,561)	1,000,000
Proceeds from sale of treasury shares		199,227	-
Final dividend paid		(1,500,000)	(1,296,512)
		<u>(1,232,096)</u>	<u>832,908</u>
<b>Net cash (used in) from financing activities</b>			
		<u>(1,232,096)</u>	<u>832,908</u>
Net increase in cash and cash equivalents		11,797,038	4,908,410
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		29,909	(632,556)
Cash and cash equivalents at the beginning of the period		15,805,052	17,980,403
		<u>27,631,999</u>	<u>22,256,257</u>
<b>Cash and cash equivalents at the end of the period</b>	9		
		<u>27,631,999</u>	<u>22,256,257</u>
Special commission income received during the period		8,481,533	7,383,408
Special commission expense paid during the period		1,434,539	1,263,099
		<u>357,709</u>	<u>(330,099)</u>
<b>Supplemental non-cash information</b>			
Movement in other reserve and transfers to consolidated statement of income		357,709	(330,099)

  
Lama A. Ghazala  
Chief Financial Officer

  
Saeed M. Al-Ghamdi  
Chief Executive Officer

  
Mansour S. Al Maiman  
Chairman

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2016 and 2015 (UNAUDITED)

#### 1. GENERAL

##### (1.1) Introduction

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

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

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

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

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

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

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

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

The details of the Group's 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% (30 June 2015: 90.71%) direct ownership interest in NCBC and an indirect ownership of 6.97% (30 June 2015: 5.20%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

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

The Group has a 97.68% (30 June 2015: 95.91%) effective ownership interest in NCB Capital Dubai Inc. a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC initially acquired a 77% direct ownership interest in NCB Capital Dubai Inc., which was reduced to 70% on 5 September 2013 without losing control. During the year ended 31 December 2015, NCBC completed the buy-out of the residual 30% from the non-controlling shareholders.



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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2016 and 2015 (UNAUDITED)

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

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

The Group has a 97.68% (30 June 2015: 82.96%) effective aggregate ownership in NCB Capital Saudi Arabian Equity Fund and NCB Capital GCC Equity Fund both of which are registered in Dublin, Ireland under NCBC Investment Management Umbrella Company Plc. The Funds have been established for investments in GCC and KSA based equities via two special purpose entities (SPEs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

During the six months period ended 30 June 2016, NCB Capital GCC Equity Company W.L.L along with the underlying fund was liquidated and NCB Capital KSA Equity Company W.L.L along with the underlying fund is under liquidation.

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

The Bank has a 67.03% (30 June 2015: 67.03%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

At 30 June 2016, TFK fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlık Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFK.

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

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (30 June 2015: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

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

The Bank has 100% (30 June 2015: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030195150 dated Dhul Hijjah 21, 1430H, corresponding to December 8, 2009. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

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

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

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

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

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2016 and 2015 (UNAUDITED)

#### 2. BASIS OF PREPARATION

##### (2.1) Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard (IAS) 34 - Interim Financial Reporting. The Bank prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015.

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2015.

##### (2.2) Basis of measurement

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

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

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

##### (2.4) Basis of consolidation

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

###### (a) Subsidiaries

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

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

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

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

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

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2016 and 2015 (UNAUDITED)

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

##### (2.4) Basis of consolidation (continued)

###### (c) Associates

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

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

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

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

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

##### (2.5) Accounting policies

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

###### a. New standards

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

###### b. Amendments to existing standards

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2016 and 2015 (UNAUDITED)**

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

**b. Amendments to existing standards (continued)**

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

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

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

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

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

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

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

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. BASIS OF PREPARATION (continued)**

**(2.5) Accounting policies (continued)**

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

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

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**3. INVESTMENTS, NET**

	30 June 2016 (Unaudited) <u>SR '000</u>	31 December 2015 (Audited) <u>SR '000</u>	30 June 2015 (Unaudited) <u>SR '000</u>
Held as FVIS (Fair Value through Income Statement) (see note (a))	2,391,814	2,841,315	3,230,054
Available for sale, net	20,300,377	30,602,034	32,253,910
Held to maturity, net	1,591,658	1,721,891	1,815,024
Other investments held at amortized cost, net (see note (b))	<u>90,443,743</u>	<u>98,937,205</u>	<u>113,842,812</u>
<b>Total</b>	<u><u>114,727,592</u></u>	<u><u>134,102,445</u></u>	<u><u>151,141,800</u></u>

- a) FVIS investments include investments held for trading amounting to SR 494 million (31 December 2015: SR 737 million and 30 June 2015: SR 949 million).
- b) Other investments held at amortized cost include investments having an amortized cost of SR 5,382 million (31 December 2015: SR 8,491 and 30 June 2015: SR 7,652 million) which are held under a fair value hedge relationship. As at 30 June 2016, the fair value of these investments amounts to SR 5,113 million (31 December 2015: SR 8,567 million and 30 June 2015: SR 7,809 million).

Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 22,531 million, (31 December 2015: SR 5,819 million and 30 June 2015: SR 14,852 million) and also include investment in sukuks amounting to SR 29,306 million, (31 December 2015: SR 34,167 million and 30 June 2015: SR 30,737 million).

**4. FINANCING AND ADVANCES, NET**

	30 June 2016 (Unaudited) <u>SR '000</u>	31 December 2015 (Audited) <u>SR '000</u>	30 June 2015 (Unaudited) <u>SR '000</u>
Credit cards	3,526,089	3,391,463	3,125,601
Consumer	86,506,301	79,649,911	75,303,265
Corporate	167,545,948	162,833,089	148,055,371
Others	<u>8,917,193</u>	<u>8,947,301</u>	<u>9,761,383</u>
Performing financing and advances	266,495,531	254,821,764	236,245,620
Non-performing financing and advances	<u>3,834,193</u>	<u>3,681,949</u>	<u>3,023,749</u>
<b>Total financing and advances</b>	<u>270,329,724</u>	<u>258,503,713</u>	<u>239,269,369</u>
Allowance for financing and advances losses	<u>(5,563,755)</u>	<u>(5,563,622)</u>	<u>(4,987,813)</u>
<b>Financing and advances, net</b>	<u><u>264,765,969</u></u>	<u><u>252,940,091</u></u>	<u><u>234,281,556</u></u>

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 223,250 million, (31 December 2015: SR 205,671 million and 30 June 2015: SR 188,757 million).

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**5. CUSTOMERS' DEPOSITS**

	<b>30 June 2016 (Unaudited) SR '000</b>	<b>31 December 2015 (Audited) SR '000</b>	<b>30 June 2015 (Unaudited) SR '000</b>
Current accounts	219,542,731	228,518,314	277,734,977
Savings	158,349	160,239	158,860
Time	81,481,797	76,166,443	65,550,099
Others	13,525,060	18,614,673	17,533,066
<b>Total</b>	<b>314,707,937</b>	<b>323,459,669</b>	<b>360,977,002</b>

**6. DEBT SECURITIES ISSUED**

<u>Issuer</u>	<u>Period of issue</u>	<u>Tenure</u>	<u>Particulars</u>	<b>30 June 2016 (Unaudited) SR '000</b>	<b>31 December 2015 (Audited) SR '000</b>	<b>30 June 2015 (Unaudited) SR '000</b>
National Commercial Bank	Feb 2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying profit payable semi-annually.	5,051,702	5,035,968	5,034,399
Türkiye Finans Katılım Bankası A.Ş.	May 2013	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	1,536,131	1,517,135	1,527,879
	April 2014	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	1,881,689	1,871,024	1,880,942
	June 2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	747,005	698,513	796,518
	January 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable in a lumpsum at maturity.	-	-	73,378
	February 2015	5 years	Non-convertible unlisted sukuk, carrying profit payable semi-annually.	143,222	132,108	152,685
	February 2015	4 months	Non-convertible unlisted sukuk, carrying profit payable in a lumpsum at maturity.	-	-	111,136

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

**30 June 2016 and 2015 (UNAUDITED)**

**6. DEBT SECURITIES ISSUED (continued)**

<u>Issuer</u>	<u>Period of issue</u>	<u>Tenure</u>	<u>Particulars</u>	<u>June 2016 (Unaudited) SR '000</u>	<u>December 2015 (Audited) SR '000</u>	<u>June 2015 (Unaudited) SR '000</u>
Türkiye Finans Katılım Bankası A.Ş.	May 2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	197,308	186,307	210,375
	June 2015	3 months	Non-convertible sukuk unlisted, carrying profit payable at maturity.	-	-	140,080
	June 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	-	-	217,124
	July 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	-	88,562	-
	August 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	124,534	-
	November 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	190,206	-
	December 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	-	96,360	-
	January 2016	7 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable at maturity.	136,756	-	-
	February 2016	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable quarterly.	131,542	-	-
	April 2016	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable at maturity.	84,097	-	-
	May 2016	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable quarterly.	193,124	-	-
	June 2016	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable at maturity.	120,722	-	-
<b>Total</b>				<b>10,223,298</b>	<b>9,940,717</b>	<b>10,144,516</b>



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

**30 June 2016 and 2015 (UNAUDITED)**

**7. DERIVATIVES**

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

	<u>30 June 2016 (Unaudited)</u>			<u>31 December 2015 (Audited)</u>			<u>30 June 2015 (Unaudited)</u>		
	<u>SR'000</u>			<u>SR'000</u>			<u>SR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
<b>Held for trading:</b>									
Special commission rate swaps	1,540,525	(1,378,750)	76,641,223	565,286	(477,919)	55,968,253	513,639	(441,796)	47,935,030
Special commission rate options and futures	75,345	(75,345)	3,304,642	43,843	(43,895)	1,363,040	43,806	(43,903)	1,421,439
Forward foreign exchange contracts	464,696	(263,249)	91,661,228	235,340	(147,937)	120,780,866	167,202	(97,268)	146,665,100
Options	828	-	88,106	6,499	(6,499)	469,269	5,186	(2,851)	319,939
Structured derivatives	637,390	(637,390)	77,573,581	1,580,554	(1,580,541)	100,677,103	571,701	(572,065)	98,065,465
<b>Held as fair value hedges:</b>									
Special commission rate swaps	121,876	(578,996)	8,305,629	165,376	(456,864)	11,404,632	69,597	(419,994)	9,539,592
<b>Held as cash flow hedges:</b>									
Special commission rate swaps	108,801	(471,649)	10,246,815	86,084	(539,089)	12,088,637	138,612	(369,618)	12,743,319
<b>Total</b>	<b>2,949,461</b>	<b>(3,405,379)</b>	<b>267,821,224</b>	<b>2,682,982</b>	<b>(3,252,744)</b>	<b>302,751,800</b>	<b>1,509,743</b>	<b>(1,947,495)</b>	<b>316,689,884</b>

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**8. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

	<b>30 June 2016 (Unaudited) <u>SR '000</u></b>	<b>31 December 2015 (Audited) <u>SR '000</u></b>	<b>30 June 2015 (Unaudited) <u>SR '000</u></b>
Letters of credit	9,017,384	11,334,792	14,701,971
Guarantees	48,686,953	51,392,691	53,030,064
Acceptances	2,805,197	4,435,091	4,149,676
Irrevocable commitments to extend credit	10,435,108	14,244,547	11,136,958
<b>Total</b>	<b><u>70,944,642</u></b>	<b><u>81,407,121</u></b>	<b><u>83,018,669</u></b>

**9. CASH AND CASH EQUIVALENTS**

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

	<b>30 June 2016 (Unaudited) <u>SR '000</u></b>	<b>31 December 2015 (Audited) <u>SR '000</u></b>	<b>30 June 2015 (Unaudited) <u>SR '000</u></b>
Cash and balances with SAMA excluding statutory deposits	13,402,627	8,578,063	11,916,837
Due from banks and other financial institutions with original maturity of three months or less	14,229,372	7,226,989	10,339,420
<b>Total</b>	<b><u>27,631,999</u></b>	<b><u>15,805,052</u></b>	<b><u>22,256,257</u></b>

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2016 and 2015 (UNAUDITED)

### 10. OPERATING SEGMENTS

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

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

- |                       |  |
|-----------------------|--|
| <b>Retail</b>         | - Provides banking services, including lending and current accounts in addition to products in compliance with Shariah rules which are supervised by the independent Shariah Board, to individuals and private banking customers.  |
| <b>Corporate</b>      | - Provides banking services including all conventional credit-related products and financing products in compliance with Shariah rules to small sized businesses medium and large establishments and companies.  |
| <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 TFK and the Bank's Beirut branch.   |

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

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

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**10. OPERATING SEGMENTS (continued)**

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

30 June 2016	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasurv</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	108,440,640	151,752,753	140,099,609	1,528,135	50,850,642	452,671,779
Total liabilities	186,392,965	101,826,698	60,398,240	171,794	44,177,844	392,967,541
Operating income from external customers	3,127,977	3,062,209	1,647,199	306,869	1,178,208	9,322,462
Inter-segment operating income (expense)	738,111	(819,595)	133,375	-	(51,891)	-
Fee income from banking services, net	732,719	585,430	-	304,264	207,172	1,829,585
Operating income	3,866,087	2,242,615	1,780,574	306,869	1,126,317	9,322,462
Operating expenses	1,986,169	860,348	195,194	171,999	986,283	4,199,993
of which:						
- Depreciation of property and equipment	187,893	58,831	24,399	16,197	46,672	333,992
- Impairment charge for financing and advances losses, net	132,016	234,896	-	-	361,008	727,920
- Impairment charge on investments, net	-	-	13,150	-	-	13,150
Net income (Bank and non-controlling interests)	1,880,039	1,382,425	1,585,459	137,607	127,564	5,113,094

30 June 2015	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasurv</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	95,873,288	133,231,326	179,506,036	1,725,329	51,069,681	461,405,660
Total liabilities	162,733,311	168,098,702	35,462,627	248,075	44,354,743	410,897,458
Operating income from external customers	2,708,162	2,386,080	2,150,476	349,925	1,135,824	8,730,467
Inter-segment operating income (expense)	263,760	(310,310)	87,456	-	(40,906)	-
Fee income from banking services, net	475,972	625,253	-	348,520	250,060	1,699,805
Operating income	2,971,921	2,075,770	2,237,933	349,925	1,094,918	8,730,467
Operating expenses	1,903,137	455,482	149,672	179,703	1,032,190	3,720,184
of which:						
- Depreciation of property and equipment	166,985	50,550	20,614	11,675	47,329	297,153
- Impairment charge (reversal) for financing and advances losses, net	276,699	(139,121)	-	-	359,597	497,175
- Impairment charge on investments, net	-	-	-	686	-	686
Net income (Bank and non-controlling interests)	1,069,766	1,619,141	2,090,929	169,981	38,465	4,988,282

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

Basic earnings per share for the periods ended 30 June 2016 and 30 June 2015 is calculated by dividing the net income attributable to equity holders of the Bank for the periods by the weighted average number of shares outstanding during the period.

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

**12. TIER 1 SUKUK**

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

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukukholders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly in arrears on each periodic distribution dates, except upon the occurrence of a non-pay payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

**13. ZAKAT**

Zakat assessments have been finalised with the General authority of Zakat and Tax (GAZT) for prior years up to 2011. The Bank has submitted Zakat returns for the years from 2012 to 2015 and obtained the necessary Zakat certificate. The Zakat returns for the years from 2012 up to 2015 are currently under review by GAZT and Zakat assessment for these years is awaited.

**14. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2015: 2,000,000,000 shares of SR 10 each and 30 June 2015: 2,000,000,000 shares of SR 10 each). The capital of the Bank excluding treasury shares consists of 2,000,000,000 shares of SR 10 each (31 December 2015: 1,994,633,531 shares of SR 10 each and 30 June 2015: 1,994,633,531 shares of SR 10 each).

**15. TREASURY SHARES**

During the six months period ended 30 June 2016, the Bank disposed of its treasury shares (previously acquired in satisfaction of a debt) via regular market transactions as well as put through trades at a net gain of SR 8.7 million.

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

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

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

Fair value information of the Group's financial instruments is analysed below.

**a. Fair value information for financial instruments at fair value**

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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

	<u>(SR '000)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>30 June 2016 (Unaudited)</b>				
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,949,461	-	2,949,461
Financial assets designated at FVIS	-	1,766,587	130,883	1,897,470
Financial assets available for sale	15,723,576	1,201,269	528,783	17,453,628
Held for trading	494,344	-	-	494,344
Other investments held at amortized cost, net - fair value hedged	-	5,113,374	-	5,113,374
<b>Total</b>	<b>16,217,920</b>	<b>11,030,691</b>	<b>659,666</b>	<b>27,908,277</b>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	3,405,379	-	3,405,379
<b>Total</b>	<b>-</b>	<b>3,405,379</b>	<b>-</b>	<b>3,405,379</b>

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

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

	<u>(SR '000)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
30 June 2015 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	1,509,743	-	1,509,743
Financial assets designated at FVIS	-	1,765,082	516,156	2,281,238
Financial assets available for sale	26,855,600	4,460,702	937,608	32,253,910
Held for trading	948,816	-	-	948,816
Other investments held at amortized cost, net - fair value hedged	-	7,809,094	-	7,809,094
<b>Total</b>	<u>27,804,416</u>	<u>15,544,621</u>	<u>1,453,764</u>	<u>44,802,801</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	1,947,495	-	1,947,495
<b>Total</b>	<u>-</u>	<u>1,947,495</u>	<u>-</u>	<u>1,947,495</u>

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

The fair value of financing and advances, net amounts to SR 263,958 million (31 December 2015: SR 253,101 million and 30 June 2015: SR 230,858 million).

The fair values of due from banks and other financial institutions, held to maturity investments, other investments held at amortized cost, due to banks and other financial institutions, customers deposits and debt securities issued at 30 June 2016, 31 December 2015 and 30 June 2015 approximate their carrying values.

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

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

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

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

**d. Transfer between Level 1 and Level 2**

There were no transfers between level 1 and level 2 during the six months period ended 30 June 2016 (30 June 2015: Nil).

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

**e. Reconciliation of Level 3 fair values**

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

	<b>30 June</b>	<b>30 June</b>
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>SR '000</b>	<b>SR '000</b>
<b>Movement of level 3 is as follows:</b>		
Balance at beginning of the period	988,554	1,543,370
Total gains (realized and unrealized) in interim condensed consolidated statement of income	30,942	30,847
Purchases	194,518	131,345
(Sales) / (Distributions) / (other movement (note 1.2h))	(379,991)	(251,654)
(Settlement)	4,034	-
Transfer to/(from) level 3	(178,389)	-
<b>Balance at end of the period</b>	<b>659,668</b>	<b>1,453,908</b>

**Transfer out of level 3**

During the six months period ended 30 June 2016, an amount of SR 178 million (30 June 2015: Nil) was transferred to level 1 pursuant to the initial public offering of a private equity investment held by Mena fund (note 1.2h).

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

No significant unobservable inputs were applied in the valuation of hedge funds and private equities for the six months period ended 30 June 2016 (and 30 June 2015) and hence sensitivity analysis is not applicable for these periods.

**17. DIVIDEND**

On 26 July 2016 the Board of directors has approved the distribution of interim dividend of SR 1,200 million (SR 0.60 per share), (30 June 2015: SR 1,596 million, SR 0.80 per share).



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**18. CAPITAL ADEQUACY**

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires Banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

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

	<b>Risk weighted assets</b>		
	<b>30 June 2016 (Unaudited) SR 000</b>	<b>31 December 2015 (Audited) SR 000</b>	<b>30 June 2015 (Unaudited) SR 000</b>
Credit risk	326,177,352	328,281,725	313,445,859
Operational risk	31,099,164	29,525,304	27,945,536
Market risk	7,486,910	7,347,137	7,573,240
<b>Total Pillar-1 - risk weighted assets</b>	<b>364,763,426</b>	<b>365,154,166</b>	<b>348,964,635</b>
Core capital (Tier 1)	59,233,745	55,101,066	49,706,895
Supplementary capital (Tier 2)	7,721,675	7,707,197	7,630,568
Core and supplementary capital (Tier 1 and Tier 2)	66,955,420	62,808,263	57,337,463
<b>Capital Adequacy Ratio (Pillar 1):-</b>			
Core capital (Tier 1)	16.2%	15.1%	14.2%
Core and supplementary capital (Tier 1 and Tier 2)	18.4%	17.2%	16.4%

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

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

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**19. DISCLOSURES UNDER BASEL III FRAMEWORK**


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

**20. COMPARATIVE FIGURES**

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

**21. BOARD OF DIRECTORS' APPROVAL**

The interim condensed consolidated financial statements were approved by the Board of Directors on 22 Shawwal 1437H (corresponding to 27 July 2016).

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Saeed M. Al-Ghamdi  
Chief Executive Officer

  
Mansour S. Al Maiman  
Chairman

A.A.