

THE NATIONAL COMMERCIAL BANK
(A Saudi Joint Stock Company)

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

30 JUNE 2015

Ernst & Young

KPMG Al Fozan & Al Sadhan



Ernst & Young & Co. (Public Accountants)
13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45



Al Fozan & Al Sadhan
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

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 2015 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 23, which form an integral part of these interim condensed consolidated financial statements. We have not reviewed note 21, 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 20 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 20 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

Ernst & Young
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

KPMG Al Fozan & Al Sadhan
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Abdullah H. Al Fozan
Certified Public Accountant
Registration No. 348



2 August 2015
17 Shawwal 1436H
Jeddah



The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015 (Unaudited) SR '000	31 December 2014 (Audited) SR '000	30 June 2014 (Unaudited) SR '000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		33,102,444	28,818,569	32,080,815
Due from banks and other financial institutions		29,797,476	19,863,020	20,922,819
Investments, net	3	150,018,196	152,903,040	163,635,227
Financing and advances, net	4	233,013,775	220,722,363	206,194,657
Investments in associates, net	5	407,835	407,835	407,835
Other real estate, net		845,743	858,520	861,144
Property and equipment, net		3,758,482	3,427,399	3,438,311
Goodwill and other intangible assets, net		557,883	693,298	817,611
Other assets		9,919,878	7,184,040	7,175,432
Total assets		461,421,712	434,878,084	435,533,851
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		30,604,935	35,449,488	26,202,274
Customers' deposits	6	360,466,450	333,095,491	345,596,553
Debt securities issued	7	10,075,880	9,550,496	9,501,714
Other liabilities		9,766,245	9,861,718	7,878,882
Total liabilities		410,913,510	387,957,193	389,179,423
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital	16	20,000,000	20,000,000	20,000,000
Treasury shares		(190,510)	(190,510)	(190,510)
Statutory reserve		17,172,081	17,172,081	15,102,989
Other reserves (cumulative changes in fair values)		1,305,096	1,617,888	1,712,209
Retained earnings		12,260,758	7,371,935	7,976,455
Proposed dividend		-	1,296,512	1,595,707
Foreign currency translation reserve		(2,530,036)	(2,054,269)	(1,589,119)
Tier 1 sukuk	14	1,000,000	-	-
Total equity attributable to equity holders of the Bank		49,017,389	45,213,637	44,607,731
NON-CONTROLLING INTERESTS		1,490,813	1,707,254	1,746,697
Total equity		50,508,202	46,920,891	46,354,428
Total liabilities and equity		461,421,712	434,878,084	435,533,851

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

The National Commercial Bank
(A Saudi Joint Stock Company)

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

	<u>Notes</u>	For the three months ended		For the six months ended	
		2015	2014	2015	2014
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Special commission income		3,753,657	3,422,896	7,441,606	6,618,317
Special commission expense		(617,370)	(579,965)	(1,281,511)	(1,067,111)
Net special commission income		3,136,287	2,842,931	6,160,095	5,551,206
Fee income from banking services, net		867,059	964,030	1,703,969	1,785,646
Exchange income, net		260,800	182,388	502,130	360,987
(Loss) income from FVIS investments, net		(28)	31,564	83,392	60,500
Trading (loss) income, net		(31,978)	4,166	73,982	51,094
Dividend income		44,108	72,466	111,443	87,782
Gains on non-trading investments, net		106,607	201,349	305,354	341,395
Other operating (expenses), net		(100,094)	(83,913)	(210,816)	(159,338)
Total operating income		4,282,761	4,214,981	8,729,549	8,079,272
Salaries and employees'-related expenses		861,812	798,053	1,858,258	1,583,350
Rent and premises-related expenses		173,560	161,193	342,001	315,097
Depreciation of property and equipment		154,619	129,544	297,153	244,807
Amortisation of intangible assets		47,334	47,334	94,668	94,668
Other general and administrative expenses		395,158	390,302	630,123	734,048
Impairment charge (reversal) for financing and advances losses, net		278,848	(91,768)	497,175	113,883
Impairment charge on investments, net		-	97,827	686	97,827
Total operating expenses		1,911,331	1,532,485	3,720,064	3,183,680
Income from operations, net		2,371,430	2,682,496	5,009,485	4,895,592
Other (expenses) income					
Other non-operating (expenses) income, net	5	(6,048)	(227,081)	(21,203)	138,765
Other (expenses) income, net		(6,048)	(227,081)	(21,203)	138,765
Net income for the period		2,365,382	2,455,415	4,988,282	5,034,357
Net income for the period attributable to:					
Equity holders of the Bank		2,362,917	2,425,408	4,968,487	4,960,714
Non-controlling interests		2,465	30,007	19,795	73,643
Net income for the period		2,365,382	2,455,415	4,988,282	5,034,357
Basic and diluted earnings per share (expressed in SR per share)	13	1.18	1.22	2.49	2.49

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

The National Commercial Bank
(A Saudi Joint Stock Company)

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

	For the three months ended		For the six months ended	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Net income for the period	2,365,382	2,455,415	4,988,282	5,034,357
Other comprehensive (loss) income that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:				
Foreign currency translation reserve - (losses)/gains	(98,846)	101,571	(678,189)	153,224
Available for sale financial assets:				
- Net change in fair values	(349,649)	162,302	(123,233)	584,154
- Transfers to interim condensed consolidated statement of income	(45,759)	(196,300)	(146,749)	(259,517)
- Impairment charge on available for sale investments	-	48,148	686	48,148
Cash flow hedges:				
- Effective portion of change in fair values	15,886	(4,610)	(26,805)	36,221
- Transfers to interim condensed consolidated statement of income	(31,337)	(3,137)	(33,998)	(12,716)
Total comprehensive income for the period	<u>1,855,677</u>	<u>2,563,389</u>	<u>3,979,994</u>	<u>5,583,871</u>
Attributable to:				
Equity holders of the Bank	1,891,496	2,475,904	4,179,928	5,420,626
Non-controlling interests	(35,819)	87,485	(199,934)	163,245
Total comprehensive income for the period	<u>1,855,677</u>	<u>2,563,389</u>	<u>3,979,994</u>	<u>5,583,871</u>

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

The National Commercial Bank
(A Saudi Joint Stock Company)

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

	Attributable to equity holders of the Bank (SR '000)											
	Share capital	Treasury shares	Statutory reserve	Other reserves	Cash flow hedge	Retained earnings	Proposed dividend	Tier 1 Sukuk	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
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	1,707,254	46,920,891
Total comprehensive income/loss for the period												
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	-	(475,767)	(475,767)	(202,422)	(678,189)
Net changes in fair value of cash flow hedges	-	-	-	-	(18,520)	-	-	-	-	(18,520)	(8,285)	(26,805)
Net changes in fair values of available for sale investments	-	-	-	(114,211)	-	-	-	-	-	(114,211)	(9,022)	(123,233)
Transfers to interim condensed consolidated statement of income	-	-	-	(146,063)	(33,998)	-	-	-	-	(180,061)	-	(180,061)
Net income for the period	-	-	-	-	-	4,968,487	-	-	-	4,968,487	19,795	4,988,282
	-	-	-	(260,274)	(52,518)	4,968,487	-	-	(475,767)	4,179,928	(199,934)	3,979,994
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	2,278	-	-	-	2,278	(15,570)	(13,292)
Premium on acquisition of non-controlling interests (see note 1.2(b))	-	-	-	-	-	(21,977)	-	-	-	(21,977)	(937)	(22,914)
Tier 1 Sukuk	-	-	-	-	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Issuance cost of Tier 1 Sukuk	-	-	-	-	-	(1,952)	-	-	-	(1,952)	-	(1,952)
Proposed interim dividend for 2015	-	-	-	-	-	-	-	-	-	-	-	-
Zakat - NCB	-	-	-	-	-	(58,013)	-	-	-	(58,013)	-	(58,013)
Final dividend paid for 2014	-	-	-	-	-	-	(1,296,512)	-	-	(1,296,512)	-	(1,296,512)
Balance as at 30 June 2015	20,000,000	(190,510)	17,172,081	1,320,600	(15,504)	12,260,758		1,000,000	(2,530,036)	49,017,389	1,490,813	50,508,202
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/loss for the period												
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	-	101,651	101,651	51,574	153,225
Net changes in fair value of cash flow hedges	-	-	-	-	36,221	-	-	-	-	36,221	-	36,221
Net changes in fair values of available for sale investments	-	-	-	546,126	-	-	-	-	-	546,126	38,028	584,154
Transfers to interim condensed consolidated statement of income	-	-	-	(211,369)	(12,717)	-	-	-	-	(224,086)	-	(224,086)
Net income for the period	-	-	-	-	-	4,960,714	-	-	-	4,960,714	73,643	5,034,357
	-	-	-	334,757	23,504	4,960,714	-	-	101,651	5,420,626	163,245	5,583,871
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	(608)	-	-	-	(608)	(18,821)	(19,429)
Premium on acquisition of non-controlling interests (see note 1.2(b))	-	-	-	-	-	-	-	-	-	-	-	-
Bonus issue (see note 16)	5,000,000	(13,417)	-	-	-	(4,986,583)	-	-	-	-	-	-
Proposed interim dividend for 2014	-	-	-	-	-	(1,595,707)	1,595,707	-	-	-	-	-
Zakat - NCB	-	-	-	-	-	(100,621)	-	-	-	(100,621)	-	(100,621)
Final dividend paid for 2013	-	-	-	-	-	-	(1,645,573)	-	-	(1,645,573)	-	(1,645,573)
Balance as at 30 June 2014	20,000,000	(190,510)	15,102,989	1,657,910	54,299	7,976,455	1,595,707	-	(1,589,119)	44,607,731	1,746,697	46,354,428

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

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE

		30 June 2015 (Unaudited) SR' 000	30 June 2014 (Unaudited) SR' 000
	<u>Notes</u>		
OPERATING ACTIVITIES			
Net income for the period		4,988,282	5,034,357
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		213,081	97,578
(Gains) on non-trading investments, net		(305,354)	(341,395)
(Gains) on disposal of property and equipment, net		(10,922)	(15,170)
(Gains) on disposal of other real estate, net	5	(606)	(146,681)
Loss on disposal of other repossessed assets		8,671	8,009
Depreciation of property and equipment		297,153	244,807
Amortisation of intangible assets		94,668	94,668
Impairment charge for financing and advances, net		497,175	113,883
Provision for impairment in associates	5	-	(52,370)
Impairment charge on investments, net		686	97,827
		5,782,834	5,135,513
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		(1,883,497)	(3,087,748)
Due from banks and other financial institutions with original maturity of more than three months		(8,623,637)	(5,413,980)
Held as fair value through income statement (FVIS) investments		(115,441)	(150,214)
Financing and advances, net		(18,136,256)	(18,806,461)
Other real estate		26,410	20,214
Other assets		(2,650,320)	(1,173,528)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(3,451,532)	1,468,061
Customers' deposits		31,446,789	44,980,207
Other liabilities		108,429	(194,964)
Net cash from operating activities		2,503,780	22,777,100
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		40,866,591	39,492,244
Purchase of non-trading / non-FVIS investments		(38,603,556)	(77,114,939)
Purchase of property and equipment		(702,440)	(1,014,144)
Proceeds from disposal of property and equipment		11,128	107,894
Net cash from (used in) investing activities		1,571,723	(38,528,945)
FINANCING ACTIVITIES			
Debt securities issued	7	1,165,258	7,989,402
Net movement in non-controlling interests		(35,838)	(19,426)
Issuance of Tier 1 Sukuk	14	1,000,000	-
Dividends paid (final)		(1,296,512)	(1,645,573)
Net cash from financing activities		832,908	6,324,403
Net increase (decrease) in cash and cash equivalents		4,908,411	(9,427,442)
Foreign currency translation reserve - net movement on cash and cash equivalents		(632,556)	4,551
Cash and cash equivalents at the beginning of the period		17,980,403	30,594,562
Cash and cash equivalents at the end of the period	10	22,256,258	21,171,671
Special commission received during the period		7,383,408	6,664,846
Special commission paid during the period		1,263,099	1,067,112
Supplemental non-cash information			
Movement in other reserves and transfers to interim condensed consolidated statement of income		(330,099)	396,290

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

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2015 and 2014 (UNAUDITED)

1. GENERAL

(1.1) Introduction

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

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

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

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

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

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

In an extraordinary general assembly meeting held on 31 March 2014 (corresponding to 30 Jumadi-AlAwwal 1435H), the shareholders approved to offer 25% of the Bank's share capital (after capital increase) to the general public under an Initial Public Offering (IPO) and to a minority shareholder of the Bank. The IPO was made for 15% of the Bank's share capital and an additional 10% was allocated to the Public Pension Agency. The shares offered were part of the shareholding of a majority shareholder of the Bank. The IPO was approved by the regulatory authorities and the subscription for the IPO took place between 19 October 2014 to 2 November 2014 and the Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

(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 2014: 90.71%) direct ownership interest in NCBC and an indirect ownership of 5.2% (30 June 2014: 4.74%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015 and 2014 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(b) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 95.91% (30 June 2014: 66.82%) effective ownership interest in Eastgate Capital Holdings Inc. (Eastgate), a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC initially acquired a 77% direct ownership interest in Eastgate, which was reduced to 70% on 5 September 2013 without losing control. During the six months ended 30 June 2015, NCBC completed the buy-out of the residual 30% from the non-controlling shareholders.

(c) NCBC Investment Management Umbrella Company Plc

The Group has a 82.96% (30 June 2014: 95.45%) 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 (SPVs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

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

The Bank has a 67.03% (30 June 2014: 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. On 29 August 2014 TFK's shareholders resolved to increase the Turkish Bank's capital from Turkish Lira (TL) 1,775 to TL 2,600 million (SR 4,443 million to SR 5,803 million) through capitalization of retained earnings of TL 600 million (SR 984 million) and cash contribution of TL 225 million (SR 375 million). The Bank's share of such cash contribution was TL 169 million (SR 281 million). The increase was approved by the Turkish Banking Regulatory and Supervision Agency (BRSA).

At 30 June 2015, TFK fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlık Kiralama A.Ş., which are special purpose entities (SPVs) established in connection with issuance of sukuk 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 2014: 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 Group has 100% (30 June 2014: 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (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 2014.

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 2014.

(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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (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. 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.

(c) Associates

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

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

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

(d) Transactions eliminated on consolidation

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (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 2014 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:

Amendments to existing standards

- Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.
- Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:
 - IFRS 1 – “first time adoption of IFRS” : the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.
 - IFRS 2 amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’.
 - IFRS 3 – “business combinations” amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.
 - IFRS 8 – “operating segments” has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.
 - IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.
 - IAS 16 – “Property plant and equipment” and IAS 38 – “intangible assets”: – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.
 - IAS 24 – “related party disclosures”– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.
 - IAS 40 – “investment property” clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015 and 2014 (UNAUDITED)

3. INVESTMENTS, NET

	30 June 2015 (Unaudited) <u>SR '000</u>	31 December 2014 (Audited) <u>SR '000</u>	30 June 2014 (Unaudited) <u>SR '000</u>
Held as FVIS (Fair Value through Income Statement) (see note (a))	3,230,054	3,114,612	2,895,305
Available for sale, net	32,117,306	27,920,653	28,352,317
Held to maturity, net	1,768,810	1,447,583	1,180,097
Other investments held at amortized cost, net (see note (b))	112,902,026	120,420,192	131,207,508
Total	<u>150,018,196</u>	<u>152,903,040</u>	<u>163,635,227</u>

a) FVIS investments include investments held for trading amounting to SR 1,010 million (31 December 2014: SR 977 million and 30 June 2014: SR 793 million).

b) Other investments held at amortized cost include investments having an amortized cost of SR 7,652 million (31 December 2014: SR 7,883 and 30 June 2014: SR 6,461 million) which are held under a fair value hedge relationship. As at 30 June 2015, the fair value of these investments amounts to SR 7,809 million (31 December 2014: SR 8,038 million and 30 June 2014: SR 6,544 million).

Investments, net, include Saudi Treasury bills, and Saudi Government Development bonds, that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 14,852 million, (31 December 2014: SR 36,636 million and 30 June 2014: SR 51,267 million) and also include investment in sukuks amounting to SR 33,818 million, (31 December 2014: SR 30,809 million and 30 June 2014: SR 27,872 million).

4. FINANCING AND ADVANCES, NET

	30 June 2015 (Unaudited) <u>SR '000</u>	31 December 2014 (Audited) <u>SR '000</u>	30 June 2014 (Unaudited) <u>SR '000</u>
Credit cards	3,124,011	2,857,685	2,692,701
Consumer	75,268,683	72,358,008	67,866,498
Corporate	151,205,700	143,384,617	134,290,113
Others	5,379,443	4,403,062	3,609,108
Performing financing and advances	234,977,837	223,003,372	208,458,420
Non-performing financing and advances	3,023,749	2,851,256	2,875,820
Total financing and advances	<u>238,001,586</u>	<u>225,854,628</u>	<u>211,334,240</u>
Allowance for financing and advances losses	(4,987,811)	(5,132,265)	(5,139,583)
Financing and advances, net	<u>233,013,775</u>	<u>220,722,363</u>	<u>206,194,657</u>

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 188,471 million, (31 December 2014: SR 172,955 million and 30 June 2014: SR 157,895 million).

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015 and 2014 (UNAUDITED)

5. INVESTMENT IN ASSOCIATES, NET

During the year ended 31 December 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 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 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 was recognised in the interim condensed consolidated statement of income for the three months period ended 31 March 2014 as a part of ‘other non-operating income (expenses), net’.

6. CUSTOMERS' DEPOSITS

	30 June	31 December	30 June
	2015	2014	2014
	(Unaudited)	(Audited)	(Unaudited)
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Current accounts	277,498,136	251,905,754	262,806,990
Savings	158,860	152,178	155,834
Time	65,280,245	67,034,136	66,320,728
Others	17,529,209	14,003,423	16,313,001
Total	<u><u>360,466,450</u></u>	<u><u>333,095,491</u></u>	<u><u>345,596,553</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015 and 2014 (UNAUDITED)

7. DEBT SECURITIES ISSUED

<u>Issuer</u>	<u>Period of issue</u>	<u>Tenure</u>	<u>Particulars</u>	30 June 2015 (Unaudited) SR '000	31 December 2014 (Audited) SR '000	30 June 2014 (Unaudited) SR '000
The National Commercial Bank	Feb 2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying fixed profit payable semi-annually.	5,000,000	5,000,000	5,000,000
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.	1,508,252	1,503,544	1,512,274
	January 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	-	179,635
	April 2014	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	1,872,002	1,867,294	1,876,023
	June 2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	796,260	853,578	933,782
	August 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable semi-annually.	-	229,450	-
	December 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	96,630	-
	January 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	73,378	-	-
	February 2015	5 years	Non-convertible unlisted sukuk, carrying profit payable semi-annually.	149,299	-	-
	February 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	110,467	-	-
	May 2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	209,018	-	-
	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	-	-
Total				10,075,880	9,550,496	9,501,714

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015 and 2014 (UNAUDITED)

8. 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 market risk.

	<u>30 June 2015 (Unaudited)</u>			<u>31 December 2014 (Audited)</u>			<u>30 June 2014 (Unaudited)</u>		
	<u>SR'000</u>			<u>SR'000</u>			<u>SR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
Held for trading:									
Special commission rate swaps	463,172	(391,748)	47,935,031	392,995	(434,800)	38,342,362	264,799	(243,774)	32,930,498
Special commission rate options and futures	43,806	(43,903)	1,421,439	56,411	(56,411)	1,472,487	27,470	(27,725)	1,074,537
Forward foreign exchange contracts	167,202	(97,268)	146,665,100	90,525	(56,886)	96,510,925	66,776	(40,201)	75,358,137
Options	5,186	(2,851)	319,939	2,868	(2,868)	224,869	5,597	(5,023)	566,951
Structured derivatives	571,701	(572,065)	98,065,465	393,031	(393,189)	91,133,259	207,786	(208,692)	72,233,190
Held as fair value hedges:									
Special commission rate swaps	9,928	(312,801)	9,539,592	16,580	(320,097)	9,268,872	528	(258,696)	7,151,296
Held as cash flow hedges:									
Special commission rate swaps	81,570	(290,636)	12,743,319	86,638	(96,456)	12,333,122	69,515	(58,380)	9,742,728
Total	1,342,565	(1,711,272)	316,689,885	1,039,048	(1,360,707)	249,285,896	642,471	(842,491)	199,057,337

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (UNAUDITED)

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	30 June 2015 (Unaudited) <u>SR '000</u>	31 December 2014 (Audited) <u>SR '000</u>	30 June 2014 (Unaudited) <u>SR '000</u>
Letters of credit	14,701,971	18,008,782	18,633,403
Guarantees	53,030,064	53,620,533	50,695,382
Acceptances	4,149,676	4,064,647	3,742,518
Irrevocable commitments to extend credit	11,136,958	9,757,956	8,458,327
Total	<u>83,018,669</u>	<u>85,451,918</u>	<u>81,529,630</u>

10. CASH AND CASH EQUIVALENTS

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

	30 June 2015 (Unaudited) <u>SR '000</u>	31 December 2014 (Audited) <u>SR '000</u>	30 June 2014 (Unaudited) <u>SR '000</u>
Cash and balances with SAMA excluding statutory deposits	11,916,837	9,516,459	12,188,603
Due from banks and other financial institutions with original maturity of three months or less	10,339,421	8,463,944	8,983,068
Total	<u>22,256,258</u>	<u>17,980,403</u>	<u>21,171,671</u>

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (UNAUDITED)

11. OPERATING SEGMENTS

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

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

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

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

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

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (UNAUDITED)

11. 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 2015	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	95,932,948	133,071,653	179,660,939	1,686,488	51,069,684	461,421,712
Total liabilities	162,935,100	168,055,450	35,320,142	248,075	44,354,743	410,913,510
Fee income from banking services, net	543,344	627,759	-	295,206	237,660	1,703,969
Operating income	3,024,691	2,076,343	2,237,937	295,941	1,094,637	8,729,549
Operating expenses	1,967,425	324,320	217,502	179,703	1,031,114	3,720,064
of which:						
- Depreciation of property and equipment	175,877	37,353	25,228	11,675	47,020	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)	1,058,758	1,750,671	2,022,926	116,666	39,261	4,988,282
	<u>SR '000</u>					
30 June 2014	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	84,905,334	116,374,255	180,692,753	1,312,809	52,248,700	435,533,851
Total liabilities	147,554,972	171,670,607	25,153,991	186,692	44,613,161	389,179,423
Fee income from banking services, net	596,723	557,443	-	373,186	258,294	1,785,646
Operating income	2,838,469	1,827,747	1,990,074	393,604	1,029,378	8,079,272
Operating expenses	2,186,413	(229,701)	258,271	177,368	791,329	3,183,680
of which:						
- Depreciation of property and equipment	149,524	25,137	16,231	9,402	44,513	244,807
- Impairment charge (reversal) for financing and advances losses, net	633,698	(624,889)	-	-	105,074	113,883
- Impairment charge on investments, net	-	-	84,656	13,171	-	97,827
Net income (Bank and non-controlling interests)	597,532	2,381,579	1,655,134	203,678	196,434	5,034,357

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015 and 2014 (UNAUDITED)

12. LEGAL PROCEEDINGS

The Bank was named as one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States commencing in 2002. These lawsuits were consolidated in a Federal Court in New York for preliminary pre-trial purposes.

During 2004, the Bank filed motions to dismiss the lead lawsuits followed by, in July 2008, with 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. Thereafter, on 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal. The plaintiffs appealed. Oral arguments followed in December 2012 with the Court of Appeals affirming on 16 April 2013 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.

On 9 September 2013, the plaintiffs sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition for a writ of certiorari to the United States Supreme Court. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common Brief in Opposition filed in November 2013. On 16 December 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S. government. In a brief filed on 27 May 2014, the Solicitor General expressed "the view of the United States [that] the petition for certiorari should be denied." The plaintiffs filed a supplemental brief on 9 June 2014 disagreeing with the views of the United States.

On 30 June 2014, the Supreme Court denied plaintiffs' petition for a writ of certiorari ("order of denial"). The plaintiffs then had until 25 July 2014 to submit a petition for rehearing of the order of denial. The Court's rules provide that the order of denial "will not be suspended pending disposition of a petition for rehearing" absent a further order of the Court, and that a petition for rehearing must be limited strictly to "intervening circumstances of a substantial or controlling effect or to other substantial grounds not previously presented." The Bank's US Legal Counsel took the position that the plaintiffs cannot, in good faith, satisfy the rule governing a petition for rehearing given that the Court's order of denial was entered shortly after plaintiffs' response to the Solicitor General's brief, which addressed all relevant issues. Thereafter, the Bank had been advised by its US Legal Counsel that these legal proceedings were substantively concluded in its favor as of 30 June 2014 being the date of the Court's order of denial. Subsequently, the Bank's Legal Counsel has confirmed that the plaintiffs have not filed any petition for rehearing. Accordingly, the aforesaid proceeding stands finally terminated in favor of the Bank.

13. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 30 June 2015 and 30 June 2014 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.

14. TIER 1 SUKUK

On 22 June 2015, the Bank through a Shari'a compliant arrangement issued Tier 1 Sukuk (the "Sukuk"). The issuance was approved by the regulatory authorities and the shareholders of the Bank vide resolution dated 31 March 2015.

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

The applicable profit rate on the Sukuk is payable quarterly in arrears on each periodic distribution date, 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 distribution. 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.

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2015 and 2014 (UNAUDITED)

15. ZAKAT

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

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2014: 2,000,000,000 shares of SR 10 each and 30 June 2014: 2,000,000,000 shares of SR 10 each) wholly owned by Saudi shareholders. The capital of the Bank excluding treasury shares consists of 1,994,633,531 shares of SR 10 each (31 December 2014: 1,994,633,531 shares of SR 10 each and 30 June 2014: 1,994,633,531 shares of SR 10 each).

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares). The proposed increase in share capital was approved by the shareholders in the extraordinary general assembly meeting held on 31 March 2014.

17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

The fair values of statement of financial position 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 statement of financial position financial instruments are based on the quoted market prices when available or by using appropriate valuation techniques.

	30 June 2015 (Unaudited)		30 June 2014 (Unaudited)	
	<u>SR '000</u>		<u>SR '000</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Held to maturity, net	1,768,810	1,837,794	1,180,097	1,242,402
Other investments held at amortized cost, net	112,902,026	113,902,155	131,207,508	132,282,901
Total	114,670,836	115,739,949	132,387,605	133,525,303

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (UNAUDITED)

18. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

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

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

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

	(SR '000)			
30 June 2015 (Unaudited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	1,342,565	-	1,342,565
Financial assets designated at FVIS		1,704,293	516,156	2,220,449
Financial assets available for sale	26,760,295	4,419,259	937,752	32,117,306
Held for trading	1,009,605	-	-	1,009,605
Other investments held at amortized cost, net				
- fair value hedged	-	7,809,094	-	7,809,094
Total	<u>27,769,900</u>	<u>15,275,211</u>	<u>1,453,908</u>	<u>44,499,019</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	1,711,272	-	1,711,272
(SR '000)				
30 June 2014 (Unaudited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	642,471	-	642,471
Financial assets designated at FVIS	6,682	1,619,070	476,226	2,101,978
Financial assets available for sale	12,489,487	14,747,877	1,114,953	28,352,317
Held for trading	793,327	-	-	793,327
Other investments held at amortized cost, net				
- fair value hedged	-	6,544,415	-	6,544,415
Total	<u>13,289,496</u>	<u>23,553,833</u>	<u>1,591,179</u>	<u>38,434,508</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	842,491	-	842,491

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (UNAUDITED)

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

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

	30 June 2015 (Unaudited) <u>SR '000</u>	30 June 2014 (Unaudited) <u>SR '000</u>
Balance as at 1 January	1,543,370	1,546,058
Total gains in the interim condensed consolidated statements of income and of comprehensive income	30,847	122,290
Purchases	131,345	14,711
(Sales)	(251,654)	(91,880)
Balance as at 30 June	<u>1,453,908</u>	<u>1,591,179</u>

19. DIVIDEND

On 8 July 2015 the Board of directors has approved the distribution of interim dividend of SR 1,596 million (SR 0.80 per share), (30 June 2014: SR 1,596 million, SR 0.80 per share).

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2015 and 2014 (UNAUDITED)

20. CAPITAL ADEQUACY

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

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

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

	Risk weighted assets		
	30 June 2015 (Unaudited) SR 000	31 December 2014 (Audited) SR 000	30 June 2014 (Unaudited) SR 000
Credit risk	313,445,859	277,142,137	259,985,267
Operational risk	27,945,536	26,973,029	25,631,642
Market risk	7,573,240	8,666,722	7,006,605
Total Pillar-1 - risk weighted assets	348,964,635	312,781,888	292,623,514
Core capital (Tier 1)	49,706,895	46,061,990	45,344,206
Supplementary capital (Tier 2)	7,630,568	7,755,498	7,667,675
Core and supplementary capital (Tier 1 and Tier 2)	57,337,463	53,817,488	53,011,881
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	14.2%	14.7%	15.5%
Core and supplementary capital (Tier 1 and Tier 2)	16.4%	17.2%	18.1%

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

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

21. DISCLOSURES UNDER BASEL III FRAMEWORK

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

22. COMPARATIVE FIGURES

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

23. BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on 23 July 2015 (corresponding to 7 Shawwal 1436H).