

THE NATIONAL COMMERCIAL BANK
(A Saudi Joint Stock Company)

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

30 September 2012

Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of The National Commercial Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 September 2012, and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three-month and nine-month period ended 30 September 2012, and the interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended along with the condensed notes 1 through 14. 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 14 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 14 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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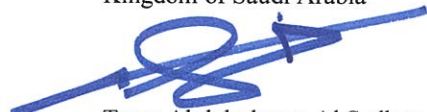
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25 Dhul Hijjah 1433H
10 November 2012
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The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2012 (Unaudited) SR '000	31 December 2011 (Audited) SR '000	30 September 2011 (Unaudited) SR '000
	<u>Note</u>			
ASSETS				
Cash and balances with SAMA		18,676,663	24,702,024	17,697,128
Due from banks and other financial institutions		17,480,442	11,561,490	13,648,305
Investments, net	3	115,007,336	120,489,168	136,131,551
Loans and advances, net	4	157,212,261	135,289,496	129,821,930
Investment in associates, net		834,099	838,575	819,905
Other real estate, net		230,767	249,169	262,533
Property and equipment, net		2,398,134	2,317,353	2,078,018
Intangible assets, net		561,446	626,308	674,752
Goodwill, net		639,367	604,635	619,918
Other assets		7,762,597	4,519,943	5,221,639
Total assets		320,803,112	301,198,161	306,975,679
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		23,591,934	19,939,666	23,170,928
Customers' deposits	5	251,326,413	239,457,558	242,988,504
Other liabilities		7,440,477	6,215,683	6,154,672
Total liabilities		282,358,824	265,612,907	272,314,104
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Share capital	13	15,000,000	15,000,000	15,000,000
Treasury shares	7	(177,093)	(177,093)	(177,093)
Statutory reserve		12,105,333	12,105,333	10,655,725
Other reserves (cumulative changes in fair values)		1,974,440	1,918,274	2,017,618
Retained earnings		9,073,053	5,226,884	7,086,554
Proposed dividend		-	1,495,975	-
Foreign currency translation reserve		(1,187,848)	(1,404,155)	(1,349,119)
Total shareholders' equity attributable to equity holders of the Parent		36,787,885	34,165,218	33,233,685
Non-controlling interests		1,656,403	1,420,036	1,427,890
Total shareholders' equity		38,444,288	35,585,254	34,661,575
Total liabilities and shareholders' equity		320,803,112	301,198,161	306,975,679

The accompanying notes 1 to 14 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)

	Three Months Ended		Nine Months Ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
<u>Note</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Special commission income	2,836,601	2,582,311	8,274,926	7,565,161
Special commission expense	(477,784)	(409,094)	(1,436,237)	(1,203,494)
Net special commission income	2,358,817	2,173,217	6,838,689	6,361,667
Fee income from banking services, net	751,400	614,339	2,419,450	2,001,677
Foreign exchange income, net	132,666	128,875	414,084	343,447
Income (loss) from FVIS investments, net	60,952	(62,268)	87,264	(6,885)
Trading income, net	17,241	28,467	70,086	124,723
Dividend income	26,177	28,406	88,733	63,527
Gains on non-trading investments, net	18,141	148,600	541,795	305,951
Operating income	3,365,394	3,059,636	10,460,101	9,194,107
Salaries and employee-related expenses	633,504	585,262	1,922,179	1,890,662
Rent and premises-related expenses	128,142	112,441	356,081	324,656
Depreciation of property and equipment	104,848	88,182	305,096	261,214
Amortisation of intangible assets	47,334	47,334	142,003	150,546
Other general and administrative expenses	379,179	307,838	1,066,672	881,332
Impairment charge for credit losses, net	451,337	212,250	1,197,944	916,817
Operating expenses	1,744,344	1,353,307	4,989,975	4,425,227
Income from operations, net	1,621,050	1,706,329	5,470,126	4,768,880
Other (expenses)				
Donations	(15,996)	(9,864)	(47,126)	(40,079)
Other non-operating (expenses), net	(80,001)	(118,155)	(242,137)	(183,036)
Net other (expenses)	(95,997)	(128,019)	(289,263)	(223,115)
Net income for the period	1,525,053	1,578,310	5,180,863	4,545,765
Net income for the period attributable to:				
Equity holders of the Parent	1,480,485	1,545,872	5,042,363	4,473,170
Non-controlling interests	44,568	32,438	138,500	72,595
Net income for the period	1,525,053	1,578,310	5,180,863	4,545,765
Basic and diluted earnings per share (expressed in SR per share)	13	1.03	3.37	2.99

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	30 September 2012 SR '000	30 September 2011 SR '000	30 September 2012 SR '000	30 September 2011 SR '000
Net income for the period	1,525,053	1,578,310	5,180,863	4,545,765
Other comprehensive income/(loss):				
Foreign currency translation reserve - gains/(losses)	30,349	(556,896)	295,572	(748,919)
Available for sale financial assets:				
- Net change in fair values	55,956	384,779	402,948	879,450
- Transfers to interim condensed consolidated income statement	(5,626)	(90,201)	(410,619)	(242,484)
Cash flow hedges:				
- Net change in fair values	27,625	13,001	99,848	84,565
- Transfers to interim condensed consolidated income statement	(10,236)	(12,381)	(36,019)	(37,732)
Total comprehensive income for the period	1,623,121	1,316,612	5,532,593	4,480,645
Attributable to:				
Equity holders of the Parent	1,573,822	1,454,897	5,314,836	4,651,809
Non-controlling interests	49,299	(138,285)	217,757	(171,164)
Total comprehensive income for the period	1,623,121	1,316,612	5,532,593	4,480,645

The accompanying notes 1 to 14 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 SHAREHOLDERS' EQUITY
(UNAUDITED)

	Attributable to equity holders of the Parent										
	Share capital	Treasury shares	Statutory reserve	Other reserves		Retained earnings	Proposed dividend	Foreign currency translation reserve	Total	Non-controlling interests	Total
				financial assets	Cash flow hedge						
SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
For the nine months ended 30 September 2012											
Balance as at 1 January 2012	15,000,000	(177,093)	12,105,333	1,861,389	56,885	5,226,884	1,495,975	(1,404,155)	34,165,218	1,420,036	35,585,254
Total comprehensive (loss) income for the period	-	-	-	(7,663)	63,829	5,042,363	-	216,307	5,314,836	217,757	5,532,593
Adjustments in non-controlling interests	-	-	-	-	-	586	-	-	586	18,610	19,196
Final dividend paid	-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
Interim dividend paid (note 6)	-	-	-	-	-	(1,196,780)	-	-	(1,196,780)	-	(1,196,780)
Balance as at 30 September 2012	15,000,000	(177,093)	12,105,333	1,853,726	120,714	9,073,053	-	(1,187,848)	36,787,885	1,656,403	38,444,288
For the nine months ended 30 September 2011											
Balance as at 1 January 2011	15,000,000	(177,093)	10,655,725	1,289,301	29,419	3,807,791	1,495,975	(828,860)	31,272,258	1,584,435	32,856,693
Total comprehensive income (loss) for the period	-	-	-	652,065	46,833	4,473,170	-	(520,259)	4,651,809	(171,164)	4,480,645
Adjustments in non-controlling interests	-	-	-	-	-	2,373	-	-	2,373	14,619	16,992
Final dividend paid	-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
Interim dividend paid	-	-	-	-	-	(1,196,780)	-	-	(1,196,780)	-	(1,196,780)
Balance as at 30 September 2011	15,000,000	(177,093)	10,655,725	1,941,366	76,252	7,086,554	-	(1,349,119)	33,233,685	1,427,890	34,661,575

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	<u>Note</u>	Nine Months Ended	
		30 September	30 September
		2012	2011
		<u>SR '000</u>	<u>SR '000</u>
OPERATING ACTIVITIES			
Net income for the period		5,180,863	4,545,765
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of premium (discount) on non-trading investments, net		15,359	(52,994)
(Gains) on non-trading investments, net		(541,795)	(305,951)
(Gains) on disposal of property and equipment, net		(9,900)	(15,467)
(Gains) on disposal of other real estate, net		(8,190)	(684)
Depreciation of property and equipment		305,096	261,214
Amortization of intangible assets		142,003	150,546
Impairment charge for credit losses, net		1,197,944	916,817
Bank's share in associate's losses		4,476	9,761
		<u>6,285,856</u>	<u>5,509,007</u>
Net (increase)/decrease in operating assets:			
Due from banks and other financial institutions maturing after ninety days		(2,310,751)	(1,536,191)
Statutory deposits with SAMA		(279,909)	(1,207,427)
Investment held at FVIS (including trading investments)		184,732	1,333,903
Loans and advances		(22,947,429)	(5,141,656)
Other real estate		30,082	17,816
Other assets		(3,262,743)	(1,226,513)
Net increase in operating liabilities:			
Due to banks and other financial institutions		3,652,268	8,839,230
Customers' deposits		11,868,855	13,828,323
Other liabilities		1,051,514	131,252
Net cash (used in) from operating activities		<u>(5,727,525)</u>	<u>20,547,744</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		64,569,660	93,142,750
Purchase of non-trading / non-FVIS investments		(58,689,960)	(121,485,111)
Purchase of property and equipment		(383,201)	(233,269)
Proceeds from disposal of property and equipment		15,081	6,509
Net cash from (used in) investing activities		<u>5,511,580</u>	<u>(28,569,121)</u>
FINANCING ACTIVITIES			
Net movement in non-controlling interests		19,166	(154,172)
Dividends paid		(1,495,975)	(1,495,975)
Interim dividend paid	6	(1,196,780)	(1,196,780)
Cash (used in) financing activities		<u>(2,673,589)</u>	<u>(2,846,927)</u>
Net (decrease) in cash and cash equivalents		(2,889,534)	(10,868,304)
Foreign currency translation reserve - net movement on cash and cash equivalents		192,465	(308,851)
Cash and cash equivalents at the beginning of the period		20,715,528	27,625,299
Cash and cash equivalents at the end of the period	10	<u>18,018,459</u>	<u>16,448,144</u>
Special commission received during the period		8,155,690	7,532,490
Special commission paid during the period		1,232,772	1,219,266
Supplemental non-cash information			
Net change in fair value and transfer to interim condensed consolidated income statement		<u>(56,158)</u>	<u>698,898</u>

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2012 and 2011 (UNAUDITED)

1. GENERAL

(1.1) Introduction

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

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 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
<http://www.alahli.com>

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

(1.2) Group's subsidiaries

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

(a) NCB Capital Company

In April 2007, the Bank formed a capital market company, namely, NCB Capital Company, 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. The Bank has 90.71% (2011: 90.71%) direct ownership interest in NCB Capital Company and an indirect ownership of 1.91% (2011: 3.79%) (the indirect ownership is held via an intermediary Trust for future grant to NCB Capital employees)

(b) Türkiye Finans Katılım Bankası A.Ş.

The Bank has 64.68% (2011: 64.68%) direct ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. During the period TFK shareholders resolved to increase the capital from Turkish Lira 800 to 1,775 million through capitalization of retained earnings of Turkish Lira 700 million and cash contribution of Turkish Lira 275 million. The Bank's share of such cash contribution was Turkish Lira 206 million, at Sept 30 2012, of which Turkish Lira 112.5 million (SR 235 million) has been paid on 2 October 2012, as per initial declaration.

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has 71.32% (2011: 72.77%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCB Capital Company. NCB Capital Company acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate.

The National Commercial Bank

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2012 and 2011 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(d) The Capital Partnership Group Limited (TCP)

NCB Capital Company acquired 100% ownership interest of The Capital Partnership Group Limited on 1 October 2008. On 30 June 2009, NCB Capital disposed off its 22% ownership interest in this subsidiary without losing control. TCP was incorporated and registered in the Dubai International Financial Centre on 1 November 2006. Its principal activity is providing investment management services.

(e) Real Estate Development Company

The Bank formed Real Estate Development Company (the Company) 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 100% ownership (2011: 100%) in the Company. The objectives of the Company primarily include keeping and managing property title deeds in the name of the Bank or others (as collateral); registering such title deeds in its name; purchasing land and constructing buildings on such land for future sale or lease.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The Bank prepares these interim condensed consolidated financial statements in accordance with the applicable 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 should be read in conjunction with the Bank's annual consolidated financial statements for the year ended 31 December 2011.

(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, assets or liabilities that are hedged in a fair value hedging relationship are also carried at fair value to the extent of the risk being hedged.

(2.3) Presentation currency

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

(2.4) Basis of consolidation

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. 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 consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2012 and 2011 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

(2.4) Basis of consolidation (continued)

Non-controlling interests represent the portion of net income and of net assets attributable to interests which are 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 equity attributable to the equity holders of the Parent.

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 used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Bank's annual consolidated financial statements for the year ended 31 December 2011 except for the adoption of following amendments and revisions to existing standards mentioned below which had no financial impact on the interim condensed consolidated financial statements of the Group:

- a) Amendments to IFRS 7 – Financial Instruments: Disclosures (Transfers of Financial Assets):
These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:
 - financial assets that are not derecognised in their entirety; and
 - financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

- b) Improvements to IFRSs 2011 – IAS 34 Interim Financial Reporting
These amendments emphasise the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarify how to apply this principle in respect of financial instruments and their fair values. The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.

The National Commercial Bank
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2012 and 2011 (UNAUDITED)

3. INVESTMENTS, NET

	30 September 2012 (Unaudited) SR '000	31 December 2011 (Audited) SR '000	30 September 2011 (Unaudited) SR '000
Held as FVIS (Fair Value through Income Statement)	3,433,422	3,618,154	3,701,208
Available for sale, net	26,816,914	32,266,748	34,786,688
Held to maturity, net	1,408,626	2,166,288	2,169,598
Other investments held at amortized cost, net	83,348,374	82,437,978	95,474,057
Total	115,007,336	120,489,168	136,131,551

FVIS investments above include investments held for trading amounting to SR 570 million (31 December 2011: SR 509 million and 30 September 2011: SR 502 million).

4. LOANS AND ADVANCES, NET

	30 September 2012 (Unaudited) SR '000	31 December 2011 (Audited) SR '000	30 September 2011 (Unaudited) SR '000
Credit cards	2,022,927	1,779,329	1,837,551
Consumer	46,909,299	38,423,592	37,267,204
Corporate	104,785,763	92,902,974	89,478,783
Others	5,515,760	3,928,963	2,896,843
Performing loans and advances	159,233,749	137,034,858	131,480,381
Non-performing loans and advances	4,904,157	4,271,269	4,681,683
Total loans and advances	164,137,906	141,306,127	136,162,064
Provision for credit losses	(6,925,645)	(6,016,631)	(6,340,134)
Loans & advances, net	157,212,261	135,289,496	129,821,930

5. CUSTOMERS' DEPOSITS

	30 September 2012 (Unaudited) SR '000	31 December 2011 (Audited) SR '000	30 September 2011 (Unaudited) SR '000
Current accounts	172,982,786	168,565,006	160,178,775
Savings	150,027	148,876	148,873
Time	66,374,375	60,426,636	71,922,270
Others	11,819,225	10,317,040	10,738,586
Total	251,326,413	239,457,558	242,988,504

6. INTERIM DIVIDEND

On 10 June 2012, the Board of Directors has approved an interim dividend for distribution to the shareholders. This interim dividend has been paid to the shareholders during the third quarter of 2012, amounting to SR 1,196.8 million (SR 0.80 per share), Zakat will be determined and deducted from the shareholders' dividends at year-end.

7. TREASURY SHARES

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

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2012 and 2011 (UNAUDITED)

8. DERIVATIVES

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

	<u>30 September 2012 (Unaudited)</u>			<u>31 December 2011 (Audited)</u>			<u>30 September 2011 (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	171,115	(167,675)	6,492,632	182,484	(177,291)	5,424,126	168,798	(164,541)	5,348,795
Special commission rate options and futures	765	(765)	267,568	995	(995)	332,432	5,610	(5,733)	523,326
Forward foreign exchange contracts	182,449	(134,848)	58,105,571	135,939	(81,879)	52,094,215	121,707	(130,994)	65,485,972
Options	35,437	(35,437)	4,039,134	4,169	(5,951)	117,599	6,268	(6,257)	7,149,529
Structured derivatives	39,580	(39,580)	24,052,707	69,422	(69,657)	20,530,078	76,758	(70,460)	21,800,205
Held as fair value hedges:									
Special commission rate swaps	-	(206,284)	843,750	-	(430,189)	1,833,069	-	(391,750)	1,831,774
Held as cash flow hedges:									
Special commission rate swaps	133,115	(12,400)	6,691,920	73,164	(16,279)	4,830,250	100,759	(24,506)	3,917,500
Total	562,461	(596,989)	100,493,282	466,173	(782,241)	85,161,769	479,900	(794,241)	106,057,101
Provision for counterparty risk	(217)	-		(217)	-		(217)	-	
Fair value, net	<u>562,244</u>	<u>(596,989)</u>		<u>465,956</u>	<u>(782,241)</u>		<u>479,683</u>	<u>(794,241)</u>	

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9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	30 September 2012 (Unaudited) SR '000	31 December 2011 (Audited) SR '000	30 September 2011 (Unaudited) SR '000
Letters of guarantee	50,151,586	47,861,293	44,948,749
Letters of credit	23,113,581	18,954,630	18,270,788
Acceptances	3,947,966	3,261,620	2,777,637
Irrevocable commitments to extend credit	12,280,125	9,099,812	8,313,629
Total	89,493,258	79,177,355	74,310,803

10. CASH AND CASH EQUIVALENTS

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

	30 September 2012 (Unaudited) SR '000	31 December 2011 (Audited) SR '000	30 September 2011 (Unaudited) SR '000
Cash and balances with SAMA excluding statutory deposits	4,600,018	10,905,288	4,336,030
Due from banks and other financial institutions maturing within ninety days	13,418,441	9,810,240	12,112,114
Total	18,018,459	20,715,528	16,448,144

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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 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.

- | | | |
|-----------------------|---|--|
| Consumer | - | Provides banking services, including lending and current accounts in addition to products in compliance with <i>Shariah</i> rules which are supervised by the independent <i>Shariah</i> Board, to individuals, small sized businesses and private banking customers. |
| Corporate | - | Provides banking services including all conventional credit-related products and financing products in compliance with <i>Shariah</i> rules to 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, assets management, investment banking and shares brokerage services (local, regional and international). |
| International | - | Comprises banking services provided outside Saudi Arabia including overseas subsidiaries and international banking services. |

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

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

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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 September 2012	<u>SR '000</u>					
	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	59,971,378	87,909,687	132,965,441	1,360,382	38,596,224	320,803,112
Total liabilities	124,177,242	106,823,920	20,985,974	252,146	30,119,542	282,358,824
Fee income from banking services, net	811,525	508,492	-	594,727	504,706	2,419,450
Operating income	3,926,466	1,714,588	2,530,784	613,788	1,674,475	10,460,101
Operating expenses	2,095,595	1,255,972	241,184	295,695	1,101,529	4,989,975
of which:						
- Depreciation of property and equipment	182,473	35,705	25,898	12,387	48,633	305,096
- Impairment charge for credit losses, net	165,365	791,317	-	-	241,262	1,197,944
Net income (parent and non-controlling interests)	1,797,515	375,769	2,226,476	323,326	457,777	5,180,863
	<u>SR '000</u>					
30 September 2011	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	49,546,709	75,626,591	151,087,197	1,299,675	29,415,507	306,975,679
Total liabilities	131,293,449	94,857,472	21,678,387	262,938	24,221,858	272,314,104
Fee income from banking services, net	721,393	396,221	-	422,293	461,770	2,001,677
Operating income	3,593,614	1,478,204	2,328,037	442,730	1,351,522	9,194,107
Operating expenses	2,132,323	832,298	203,971	294,695	961,940	4,425,227
of which:						
- Depreciation of property and equipment	145,826	29,658	19,399	14,044	52,287	261,214
- Impairment charge for credit losses, net	376,883	419,836	-	-	120,098	916,817
Net income (parent and non-controlling interests)	1,423,076	610,813	2,074,943	153,615	283,318	4,545,765

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12. LEGAL PROCEEDING

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

On 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal of the Bank and numerous other defendants. Through a series of notices filed on or before 15 August 2011, the plaintiffs in all lawsuits against the Bank have commenced appeals of the judgment of dismissal of the Bank and numerous other defendants and have filed an opening brief on 20 January 2012. The plaintiffs filed their replies to the various briefs on 25 June 2012. All parties will now await the date for oral arguments in the Court of Appeals.

The Bank's U.S. legal counsel has advised the Bank's management that they believe the judgment dismissing the claims against the Bank has a strong basis in both law and fact, and that the plaintiffs will face significant difficulties in challenging that judgment on appeal.

13. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 30 September 2012 and 2011 is calculated by dividing the net income attributable to equity holders of the parent for the periods by the weighted average number of shares outstanding during the periods.

The authorized, issued and fully paid share capital of the Bank excluding treasury shares consists of 1,495,975,148 shares of SR 10 each (2011: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders.

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

14. 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 assets, commitments & contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires 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 risk which comprise the Pillar 1 minimum capital requirements.

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14. CAPITAL ADEQUACY (continued)

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 September 2012 (Unaudited) SR 000	31 December 2011 (Audited) SR 000	30 September 2011 (Unaudited) SR 000
Credit risk	204,505,590	169,732,836	164,670,899
Operational risk	21,646,802	22,107,907	21,228,496
Market risk	6,931,506	7,809,547	6,527,691
Total Pillar-1 - risk weighted assets	233,083,898	199,650,290	192,427,086
Core capital (Tier 1)	37,210,807	34,318,125	33,342,043
Supplementary capital (Tier 2)	2,446,142	2,008,707	1,961,213
Core and supplementary capital (Tier 1 and Tier 2)	39,656,949	36,326,832	35,303,256
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1) - (%)	16.0%	17.2%	17.3%
Core and supplementary capital (Tier 1 and Tier 2) - (%)	17.0%	18.2%	18.3%

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