

THE NATIONAL COMMERCIAL BANK
(A Saudi Joint Stock Company)

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

30 September 2013

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 (collectively referred to as "the Group"), which comprise the interim condensed consolidated statement of financial position as at 30 September 2013, and the related interim condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended 30 September 2013, 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 19. We have not reviewed note 18, nor the information related to "Basel III - Capital Structure" 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 16 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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23 Dhul Hijjah 434H
28 October 2013
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The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2013 (Unaudited) SR '000	31 December 2012 (Audited) SR '000	30 September 2012 (Unaudited) SR '000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		33,070,059	40,298,428	18,676,663
Due from banks and other financial institutions		12,278,944	16,402,282	17,480,442
Investments, net	3	127,182,521	116,427,793	115,007,336
Loans and advances, net	4	184,412,738	163,479,092	157,212,261
Investment in associates, net		829,738	832,631	834,099
Other real estate, net		212,909	218,144	230,767
Property and equipment, net		2,553,355	2,549,896	2,398,134
Goodwill and other intangible assets, net		944,076	1,172,098	1,200,813
Other assets		5,596,280	3,939,769	7,762,597
Total assets		367,080,620	345,320,133	320,803,112
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		21,795,464	25,574,176	23,591,934
Customers' deposits	5	294,775,091	273,530,090	251,326,413
Debt securities issued		1,511,250	-	-
Other liabilities		7,080,786	6,811,722	7,440,477
Total liabilities		325,162,591	305,915,988	282,358,824
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital		15,000,000	15,000,000	15,000,000
Treasury shares	6	(177,093)	(177,093)	(177,093)
Statutory reserve		13,623,678	13,623,678	12,105,333
Other reserves (cumulative changes in fair values)		1,497,369	1,857,342	1,974,440
Retained earnings		11,864,787	7,051,299	9,073,053
Proposed dividend		-	1,495,975	-
Foreign currency translation reserve		(1,552,105)	(1,147,570)	(1,187,848)
Total equity attributable to equity holders of the Bank		40,256,636	37,703,631	36,787,885
NON-CONTROLLING INTERESTS		1,661,393	1,700,514	1,656,403
Total equity		41,918,029	39,404,145	38,444,288
Total liabilities and equity		367,080,620	345,320,133	320,803,112

The accompanying notes 1 to 19 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 2013	30 September 2012	30 September 2013	30 September 2012
<u>Note</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Special commission income	2,810,754	2,836,601	8,717,969	8,248,409
Special commission expense	(449,661)	(477,784)	(1,314,357)	(1,436,251)
Net special commission income	2,361,093	2,358,817	7,403,612	6,812,158
Fee income from banking services, net	680,951	694,314	2,331,405	2,257,124
Exchange income, net	186,105	132,666	510,717	414,084
(Loss) income from FVIS investments, net	(362)	60,952	62,118	87,264
Trading income, net	34,327	17,241	87,456	70,086
Dividend income	27,727	26,177	89,838	88,733
Gains on non-trading investments, net	124,598	18,141	651,536	541,795
Other operating income, net	4,935	29,662	55,955	84,956
Total operating income	3,419,374	3,337,970	11,192,637	10,356,200
Salaries and employee-related expenses	733,389	633,504	2,259,029	1,922,179
Rent and premises-related expenses	145,594	128,142	433,940	356,081
Depreciation of property and equipment	116,467	104,848	348,070	305,096
Amortisation of intangible assets	47,335	47,334	142,003	142,003
Other general and administrative expenses	361,794	374,487	1,086,261	1,034,664
Impairment charge for credit losses, net	199,611	451,337	615,520	1,171,427
Impairment charge on investments, net	-	-	22,157	-
Total operating expenses	1,604,190	1,739,652	4,906,980	4,931,450
Income from operations, net	1,815,184	1,598,318	6,285,657	5,424,750
Other (expenses)				
Donations	(12,076)	(15,996)	(40,354)	(47,126)
Other non-operating income (expenses), net	(46,108)	(57,269)	(83,342)	(196,761)
Net other (expenses)	(58,184)	(73,265)	(123,696)	(243,887)
Net income for the period	1,757,000	1,525,053	6,161,961	5,180,863
Net income for the period attributable to:				
Equity holders of the Bank	1,733,209	1,480,485	6,057,273	5,042,363
Non-controlling interests	23,791	44,568	104,688	138,500
Net income for the period	1,757,000	1,525,053	6,161,961	5,180,863
Basic and diluted earnings per share (expressed in SR per share)	13	1.16	0.99	4.05
				3.37

The accompanying notes 1 to 19 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 2013 SR '000	30 September 2012 SR '000	30 September 2013 SR '000	30 September 2012 SR '000
Net income for the period	1,757,000	1,525,053	6,161,961	5,180,863
Other comprehensive (loss) income to be reclassified to statement of income in subsequent periods:				
Foreign currency translation reserve - (losses)/gains	(222,834)	30,349	(577,255)	295,572
Available for sale financial assets:				
- Net change in fair values	125,095	55,956	187,719	402,948
- Transfers to interim condensed consolidated statement of income	(105,286)	(5,626)	(556,574)	(410,619)
- Impairment charge	-	-	22,157	-
Cash flow hedges:				
- Effective portion of change in fair values	(13,828)	27,625	(19,681)	99,848
- Transfers to interim condensed consolidated statement of income	7,515	(10,236)	(12,167)	(36,019)
Total comprehensive income for the period	1,547,662	1,623,121	5,206,160	5,532,593
Attributable to:				
Equity holders of the Bank	1,594,975	1,573,822	5,292,765	5,314,836
Non-controlling interests	(47,313)	49,299	(86,605)	217,757
Total comprehensive income for the period	1,547,662	1,623,121	5,206,160	5,532,593

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

Attributable to equity holders of the Bank

	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Other reserves		Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total equity SR' 000
				Available for sale financial assets SR' 000	Cash flow hedges SR' 000						
For the nine months ended											
30 September 2013											
Balance as at 1 January 2013	15,000,000	(177,093)	13,623,678	1,765,983	91,359	7,051,299	1,495,975	(1,147,570)	37,703,631	1,700,514	39,404,145
Total comprehensive (loss)/income for the period	-	-	-	(328,125)	(31,848)	6,057,273	-	(404,535)	5,292,765	(86,605)	5,206,160
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	6,351	-	-	6,351	(18,055)	(11,704)
Capital injection	-	-	-	-	-	-	-	-	-	65,539	65,539
Final dividend paid	-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
Interim dividend	-	-	-	-	-	(1,196,780)	-	-	(1,196,780)	-	(1,196,780)
Zakat	-	-	-	-	-	(53,356)	-	-	(53,356)	-	(53,356)
Balance as at 30 September 2013	15,000,000	(177,093)	13,623,678	1,437,858	59,511	11,864,787	-	(1,552,105)	40,256,636	1,661,393	41,918,029
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 and subsidiaries	-	-	-	-	-	586	-	-	586	18,610	19,196
Final dividend paid	-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
Interim dividend payable	-	-	-	-	-	(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

The accompanying notes 1 to 19 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
		2013	2012
		<u>SR '000</u>	<u>SR '000</u>
OPERATING ACTIVITIES			
Net income for the period		6,161,961	5,180,863
Adjustments to reconcile net income to net cash (used in) operating activities:			
Amortisation of premium on non-trading investments, net		175,215	15,359
(Gains) on non-trading investments, net		(651,536)	(541,795)
(Gains) on disposal of property and equipment, net		(11,652)	(9,900)
Loss (gains) on disposal of other repossessed assets		1,732	(8,190)
Depreciation of property and equipment		348,070	305,096
Amortisation of intangible assets		142,003	142,003
Impairment charge for credit losses, net		615,520	1,197,944
Bank's share in associate's losses		2,893	4,476
Impairment charge on investments, net		22,157	-
		6,806,363	6,285,856
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		(2,656,803)	(279,909)
Due from banks and other financial institutions maturing after ninety days		535,314	(2,310,751)
Investment held at FVIS (including investments held for trading)		97,364	184,732
Loans and advances		(25,023,161)	(22,947,429)
Other real estate		30,136	30,082
Other assets		(1,448,834)	(3,262,743)
Net (decrease)/increase in operating liabilities:			
Due to banks and other financial institutions		(3,071,508)	3,652,268
Customers' deposits		24,070,605	11,868,855
Other liabilities		351,439	1,051,514
Net cash (used in) operating activities		(309,085)	(5,727,525)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		56,585,734	64,569,660
Purchase of non-trading / non-FVIS investments		(67,516,336)	(58,689,960)
Purchase of property and equipment		(382,319)	(383,201)
Proceeds from disposal of property and equipment		12,035	15,081
Net cash (used in) from investing activities		(11,300,886)	5,511,580
FINANCING ACTIVITIES			
Debt securities issued		1,511,250	-
Net movement in non-controlling interests		67,558	19,166
Dividends paid		(2,692,755)	(2,692,755)
Net cash (used in) financing activities		(1,113,947)	(2,673,589)
Net (decrease) in cash and cash equivalents		(12,723,918)	(2,889,534)
Foreign currency translation reserve - net movement on cash and cash equivalents		(749,278)	192,465
Cash and cash equivalents at the beginning of the period		38,088,205	20,715,528
Cash and cash equivalents at the end of the period	10	24,615,009	18,018,459
Special commission received during the period		8,985,625	8,155,690
Special commission paid during the period		1,273,289	1,232,772
<u>Supplemental non-cash information</u>			
Movement in other reserve and transfers to interim condensed consolidated statement of income		(378,546)	(56,158)

The accompanying notes 1 to 19 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 2013 and 2012 (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 a registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank's Head Office is located at the following

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

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

(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% (2012: 90.71%) direct ownership interest in NCB Capital Company and an indirect ownership of 1.76% (2012: 1.91%) (the indirect ownership is held via an intermediary trust for future grant to NCB Capital employees).

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

The Bank has 66.27% (2012: 64.68%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. During the year ended 31 December 2012, the shareholders of TFK, resolved to increase the capital by TL 975 million, which was subsequently endorsed by the Central Bank of Turkey (BRSA). Accordingly, the share capital of Turkish Bank has been increased to TL 1,775 million through capitalization of retained earnings and cash contribution. The Bank's share of such cash contribution was TL 206 million (SR 431 million).

During May 2013, Türkiye Finans Katılım Bankası, issued 5 year fixed rate sukuk certificates amounting to US \$500 million. The certificates are listed on Irish Stock Exchange and carry a fixed rate of 3.95% payable semi annually.

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2013 and 2012 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 71.20% (2012: 71.32%) effective ownership interest in Eastgate Capital Holdings Inc., and its subsidiaries a Middle East-based private equity firm acquired through its subsidiary, NCB Capital Company. NCB Capital Company acquired a 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate.

(d) 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 a 100% ownership (2012: 100%) in the Company. The objectives of the Company primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

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 2012.

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

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 2012, except for the adoption of newly effective standards (refer to note 2.5).

(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) 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.

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2013 and 2012 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

(2.4) Basis of consolidation

These interim condensed consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital Company and its subsidiaries, Turkiye Finans Katilim Bankasi A.S (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate 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.

(a) Subsidiaries

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

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

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

(b) Non-controlling interests

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

(c) Associates

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

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

The previously recognized impairment loss in respect of investment in associate can be reversed through the interim condensed consolidated statement of income, such that the carrying amount of investment in the balance sheet remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(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 September 2013 and 2012 (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 2012 except for the adoption of the following new standards and other amendments to existing standards mentioned below which had a limited financial impact on the interim condensed consolidated interim financial statements of the Group.

a) New standards

- IFRS 10 Consolidated Financial Statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').
- IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 Fair Value Measurement – IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements, except for the requirements in case of share based payments, leasing transactions and measurements that have some similarities to fair value but are not fair value. IFRS 13 does not change the requirement that when the entity is required to use fair value, rather it provides guidance on how to measure the fair values.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are also specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in notes 14 and 15.

b) Amendments to existing standards

- Amendments to IAS 1 Presentation of Financial Statements: amends IAS 1 to revise the way other comprehensive income is presented.
- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also requires disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.
- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of joint ventures into IAS 28 (2011). The fundamental approach to accounting for equity accounted investments has not changed.
- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:
 - IAS 1 - Presentation of Financial Statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;
 - IAS 34 - Interim Financial Reporting: Segment Assets and Liabilities.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2013 and 2012 (UNAUDITED)

3. INVESTMENTS, NET

Investments, net are classified as follows:

	30 September 2013 (Unaudited) <u>SR '000</u>	31 December 2012 (Audited) <u>SR '000</u>	30 September 2012 (Unaudited) <u>SR '000</u>
Held as FVIS (Fair Value through Income Statement)	2,600,725	2,698,089	3,433,422
Available for sale, net	28,173,114	27,056,646	26,816,914
Held to maturity, net	1,030,166	1,407,704	1,408,626
Other investments held at amortized cost, net	<u>95,378,516</u>	<u>85,265,354</u>	<u>83,348,374</u>
Investments, net	<u>127,182,521</u>	<u>116,427,793</u>	<u>115,007,336</u>

FVIS investments above include investments held for trading amounting to SR 606 million (31 December 2012: SR 616 million and 30 September 2012: SR 570 million).

4. LOANS AND ADVANCES, NET

Loans and advances are comprised of the following:

	30 September 2013 (Unaudited) <u>SR '000</u>	31 December 2012 (Audited) <u>SR '000</u>	30 September 2012 (Unaudited) <u>SR '000</u>
Credit cards	2,384,811	2,024,305	2,022,927
Consumer	59,603,593	49,539,012	46,910,334
Corporate	121,287,772	108,718,702	105,645,760
Others	<u>3,085,672</u>	<u>5,302,844</u>	<u>4,654,728</u>
Performing loans and advances	186,361,848	165,584,863	159,233,749
Non-performing loans and advances	<u>3,130,943</u>	<u>4,949,358</u>	<u>4,904,157</u>
Total loans and advances	<u>189,492,791</u>	<u>170,534,221</u>	<u>164,137,906</u>
Provision for credit losses	<u>(5,080,053)</u>	<u>(7,055,129)</u>	<u>(6,925,645)</u>
Loans and advances, net	<u>184,412,738</u>	<u>163,479,092</u>	<u>157,212,261</u>

5. CUSTOMERS' DEPOSITS

Customers' deposits are comprised of the following:

	30 September 2013 (Unaudited) <u>SR '000</u>	31 December 2012 (Audited) <u>SR '000</u>	30 September 2012 (Unaudited) <u>SR '000</u>
Current accounts	227,934,844	190,156,460	172,982,786
Savings	149,726	145,998	150,027
Time	54,224,502	70,533,589	66,374,375
Others	<u>12,466,019</u>	<u>12,694,043</u>	<u>11,819,225</u>
Total	<u>294,775,091</u>	<u>273,530,090</u>	<u>251,326,413</u>

6. 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 2013 and 2012 (UNAUDITED)

7. INTERIM DIVIDEND

On 11 July 2013, 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 2013, amounting to SR 1,196.8 million (SR 0.80 per share), (30 September 2012, SR 1,196.8 million, SR 0.80 per share). Zakat will be determined and deducted from the shareholders' dividends at year-end.

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 of market risk.

	<u>30 September 2013 (Unaudited)</u>			<u>31 December 2012 (Audited)</u>			<u>30 September 2012(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	189,273	(136,151)	16,055,938	137,164	(132,817)	7,073,932	170,898	(167,675)	6,492,632
Special commission rate options and futures	-	-	-	-	-	-	765	(765)	267,568
Forward foreign exchange contracts	110,132	(67,973)	67,309,585	68,578	(55,817)	53,984,869	182,449	(134,848)	58,105,571
Options	14,133	(14,123)	2,048,284	32,552	(32,551)	2,781,723	35,437	(35,437)	4,039,134
Structured derivatives	132,601	(133,139)	36,575,675	50,016	(50,014)	22,156,663	39,580	(39,580)	24,052,707
Held as fair value hedges:									
Special commission rate swaps	-	(161,647)	843,750	-	(212,618)	843,750	-	(206,284)	843,750
Held as cash flow hedges:									
Special commission rate swaps	33,289	(23,119)	7,431,715	101,324	(9,965)	8,024,543	133,115	(12,400)	6,691,920
Total	479,428	(536,152)	130,264,947	389,634	(493,782)	94,865,480	562,244	(596,989)	100,493,282

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (UNAUDITED)

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

Credit related commitments and contingencies are as follows:

	30 September	31 December	30 September
	2013	2012	2012
	(Unaudited)	(Audited)	(Unaudited)
	SR '000	SR '000	SR '000
Letters of credit	18,575,023	21,357,108	23,113,581
Guarantees	47,433,477	50,637,430	50,151,586
Acceptances	3,197,875	3,490,347	3,947,966
Irrevocable commitments to extend credit	8,214,238	10,047,928	12,280,125
	<u>77,420,613</u>	<u>85,532,813</u>	<u>89,493,258</u>
Total	<u>77,420,613</u>	<u>85,532,813</u>	<u>89,493,258</u>

10. CASH AND CASH EQUIVALENTS

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

	30 September	31 December	30 September
	2013	2012	2012
	(Unaudited)	(Audited)	(Unaudited)
	SR '000	SR '000	SR '000
Cash and balances with SAMA excluding statutory deposits	15,862,751	25,747,923	4,600,018
Due from banks and other financial institutions with original maturity of three months or less	8,752,258	12,340,282	13,418,441
	<u>24,615,009</u>	<u>38,088,205</u>	<u>18,018,459</u>
Total	<u>24,615,009</u>	<u>38,088,205</u>	<u>18,018,459</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (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 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 <i>Shariah</i> rules which are supervised by the independent <i>Shariah</i> Board, to individuals 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 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 Bank'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 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.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (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 September 2013	SR '000					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	74,309,880	102,061,149	144,571,417	1,260,627	44,877,547	367,080,620
Total liabilities	147,060,765	128,067,958	14,730,322	246,467	35,057,079	325,162,591
Fee income from banking services, net	733,666	722,934	-	447,135	427,670	2,331,405
Operating income	3,967,459	2,427,208	2,666,343	471,837	1,659,790	11,192,637
Operating expenses	2,589,377	531,208	257,772	308,052	1,220,571	4,906,980
of which:						
- Depreciation of property and equipment	225,400	31,039	23,348	12,619	55,664	348,070
- Impairment charge for credit losses, net	303,675	71,770	-	-	240,075	615,520
- Impairment charge on investments, net	-	-	22,157	-	-	22,157
Net income (Bank and non-controlling interests)	1,413,490	1,884,874	2,407,597	169,850	286,150	6,161,961
	SR '000					
30 September 2012	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	59,971,378	88,451,973	132,965,441	1,360,382	38,053,938	320,803,112
Total liabilities	124,177,242	109,101,336	20,985,974	252,146	27,842,126	282,358,824
Fee income from banking services, net	671,462	621,436	-	594,193	370,033	2,257,124
Operating income	3,894,015	1,825,075	2,489,046	612,999	1,535,065	10,356,200
Operating expenses	2,039,593	1,262,340	244,846	295,418	1,089,253	4,931,450
of which:						
- Depreciation of property and equipment	182,473	35,943	25,898	12,387	48,395	305,096
- Impairment charge for credit losses, net	138,848	793,239	-	-	239,340	1,171,427
- Impairment charge on investments, net	-	-	-	-	-	-
Net income (Bank and non-controlling interests)	1,813,534	520,727	2,190,334	322,813	333,455	5,180,863

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (UNAUDITED)

12. LEGAL PROCEEDING

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

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

Although the judgment dismissing plaintiffs' claims against the Bank became final upon denial of the petition for rehearing, the plaintiffs on 9 September 2013 sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition to the United States Supreme Court for a writ of certiorari. The Bank expects to join with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common brief in opposition to the plaintiffs' petition for certiorari, to be filed in November 2013. The Bank's U.S. legal counsel expects that the Supreme Court will deny plaintiffs' petition because the judgment dismissing the claims against the Bank has a strong basis in both law and fact as recognized by the Court of Appeals in its 16 April 2013 decision. The Supreme Court denied plaintiff's earlier petition for certiorari involving the dismissal of claims against several Saudi government defendants.

13. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 30 September 2013 and 30 September 2012 is calculated by dividing the net income attributable to equity holders of the Bank for the periods by the weighted average number of shares outstanding during the periods.

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

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

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

	Carrying amount SR '000	Fair value SR '000
30 September 2013		
Held to maturity, net	1,030,166	1,117,171
Other investments held at amortized cost, net	95,378,516	96,079,547
Total	96,408,682	97,196,718

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (UNAUDITED)

15. 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 instrument.

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

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

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

	<u>(SR '000)</u>			
30 September 2013	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	479,428	-	479,428
Designated as FVIS	6,256	1,593,026	395,230	1,994,512
Available for sale	15,350,314	11,596,677	1,226,123	28,173,114
Held for trading	606,213	-	-	606,213
Total	<u>15,962,783</u>	<u>13,669,131</u>	<u>1,621,353</u>	<u>31,253,267</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	536,152	-	536,152
Total	<u>-</u>	<u>536,152</u>	<u>-</u>	<u>536,152</u>

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

	30 September
	2013
	(Unaudited)
	SR '000
Movement of level 3 is as follows:	
Balance as at 1 January 2013	1,606,133
Total gains in consolidated income statement and comprehensive income	(17,205)
Purchases	17,871
(Sales)	(224,547)
(Settlements)	(3,084)
Transfer from level 2	242,185
Balance as at 30 September 2013	<u>1,621,353</u>

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (UNAUDITED)

16. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires the Bank 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.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework. For the purposes of presentation, the RWAs, total eligible capital and related ratios as at 30 September 2013 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios as at 31 December 2012 and 30 September 2012 are calculated under Basel II and have not been restated.

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 2013 (Unaudited) SR 000	31 December 2012 (Audited) SR 000	30 September 2012 (Unaudited) SR 000
Credit risk	220,782,896	203,732,065	204,505,590
Operational risk	23,823,068	22,208,627	21,646,802
Market risk	6,374,159	6,157,369	6,931,506
Total Pillar-1 - risk weighted assets	250,980,123	232,098,061	233,083,898
Core capital (Tier 1)	40,941,495	38,199,378	37,210,807
Supplementary capital (Tier 2)	2,543,865	2,462,301	2,446,142
Core and supplementary capital (Tier 1 and Tier 2)	43,485,360	40,661,679	39,656,949
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	16.3%	16.5%	16.0%
Core and supplementary capital (Tier 1 and Tier 2)	17.3%	17.5%	17.0%

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

The amounts and ratios disclosed above for 30 September 2013 have been calculated based on Basel III, whereas, comparative information has been calculated based on Basel II.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 September 2013 and 2012 (UNAUDITED)

17. COMPARATIVE FIGURES

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

18. Basel III - CAPITAL STRUCTURE

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

19. BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on 28 October 2013 (corresponding to 23 Dhul Hijja 1434H).