



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

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

**30 SEPTEMBER 2018**



**Ernst & Young & Co. (Public Accountants)**  
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## Independent Auditors' 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 September 2018 and the related interim condensed consolidated statements of income and comprehensive income for the three months and nine months period then ended and the interim condensed consolidated statements of changes in equity and cash flows for the nine months period then ended and the notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') as modified by Saudi Arabian Monetary Authority ('SAMA') for the accounting of zakat and income tax. 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of the 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 International Standards on Auditing ('ISAs'), that are endorsed in the Kingdom of Saudi Arabia 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 IAS 34 as modified by SAMA for the accounting of zakat and income tax.

### **Other regulatory matters**

As required by SAMA, certain capital adequacy information has been disclosed in note 19 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 19 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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Certified Public Accountant  
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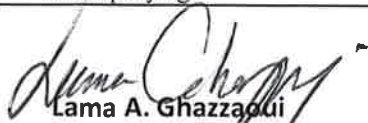
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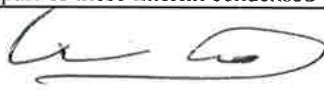


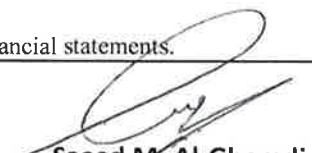
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		30 September 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	30 September 2017 (Unaudited) SAR '000
	Notes			
<b>ASSETS</b>				
Cash and balances with SAMA		36,906,821	37,969,234	33,431,788
Due from banks and other financial institutions, net		17,810,806	21,966,218	18,130,662
Investments, net	5	116,503,533	114,577,825	116,899,833
Financing and advances, net	6	268,245,445	249,234,246	256,851,955
Positive fair value of derivatives, net	7	4,031,934	2,688,458	2,797,777
Investments in associates, net		448,260	450,048	431,311
Other real estate, net		1,017,811	861,523	813,125
Property, equipment and software, net		5,131,872	5,280,672	5,171,923
Goodwill		189,069	303,037	323,681
Other assets		8,794,017	10,534,606	11,339,235
<b>Total assets</b>		<b>459,079,568</b>	<b>443,865,867</b>	<b>446,191,290</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		48,111,854	48,557,941	57,832,792
Customers' deposits	8	325,461,108	308,942,120	302,592,647
Debt securities issued	9	8,635,620	10,250,310	10,166,421
Negative fair value of derivatives, net	7	1,798,128	1,945,440	2,747,308
Other liabilities		11,798,645	9,894,458	10,116,379
<b>Total liabilities</b>		<b>395,805,355</b>	<b>379,590,269</b>	<b>383,455,547</b>
<b>EQUITY</b>				
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>				
Share capital	11	30,000,000	20,000,000	20,000,000
Treasury shares	12	(373,313)	(226,011)	(226,011)
Statutory reserve		20,266,514	20,266,514	20,230,366
Other reserves (cumulative changes in fair values)		66,901	142,449	347,809
Employees' share based payments reserve	12	171,719	96,886	87,382
Retained earnings		10,099,500	18,158,718	17,390,219
Proposed dividend	13	-	1,196,879	-
Foreign currency translation reserve		(4,727,455)	(3,594,886)	(3,396,647)
<b>Equity attributable to shareholders of the Bank</b>		<b>55,503,866</b>	<b>56,040,549</b>	<b>54,433,118</b>
Tier 1 Sukuk	15	7,000,000	7,000,000	7,000,000
<b>Equity attributable to equity holders of the Bank</b>		<b>62,503,866</b>	<b>63,040,549</b>	<b>61,433,118</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>770,347</b>	<b>1,235,049</b>	<b>1,302,625</b>
<b>Total equity</b>		<b>63,274,213</b>	<b>64,275,598</b>	<b>62,735,743</b>
<b>Total liabilities and equity</b>		<b>459,079,568</b>	<b>443,865,867</b>	<b>446,191,290</b>

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

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Faisal O. Al-Sakkaf  
Chief Executive Officer


  
Saeed M. Al-Ghamdi  
Chairman

(A Saudi Joint Stock Company)

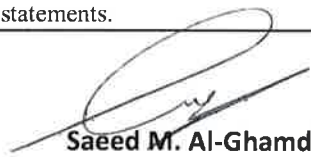
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER**

	Notes	For the three months ended		For the nine months ended	
		30 September	30 September	30 September	30 September
		2018	2017	2018	2017
		SAR '000	SAR '000	SAR '000	SAR '000
Special commission income		4,700,228	4,263,891	13,369,880	12,690,193
Special commission expense		(1,062,807)	(810,452)	(2,740,454)	(2,404,387)
<b>Net special commission income</b>		<b>3,637,421</b>	<b>3,453,439</b>	<b>10,629,426</b>	<b>10,285,806</b>
Fee income from banking services, net		802,347	793,196	2,463,615	2,384,790
Exchange income, net		369,337	280,556	920,285	890,426
Income from FVIS instruments, net		(1,442)	89,222	408,116	200,209
Dividend income		26,395	1,800	29,360	13,646
(Loss)/gains on non-FVIS financial instruments, net		(2,831)	6,397	28,784	423,995
Other operating (expenses), net		(99,629)	(133,080)	(308,193)	(369,180)
<b>Total operating income</b>		<b>4,731,598</b>	<b>4,491,530</b>	<b>14,171,393</b>	<b>13,829,692</b>
Salaries and employee-related expenses		844,030	833,965	2,662,092	2,578,478
Rent and premises-related expenses		183,335	196,647	572,217	568,104
Depreciation/amortisation of property, equipment and software		152,595	152,584	463,502	501,288
Other general and administrative expenses		426,021	404,216	1,273,985	1,144,051
Impairment charge for financing and advances losses, net		610,347	707,207	943,318	1,606,900
Impairment charge on investments, net		5,480	2,237	90,562	4,520
<b>Total operating expenses</b>		<b>2,221,808</b>	<b>2,296,856</b>	<b>6,005,676</b>	<b>6,403,341</b>
<b>Income from operations, net</b>		<b>2,509,790</b>	<b>2,194,674</b>	<b>8,165,717</b>	<b>7,426,351</b>
<b>Other (expenses), net</b>					
Other non-operating (expenses), net		(21,818)	(35,633)	(24,352)	(82,458)
<b>Other (expenses), net</b>		<b>(21,818)</b>	<b>(35,633)</b>	<b>(24,352)</b>	<b>(82,458)</b>
<b>Net income for the period</b>		<b>2,487,972</b>	<b>2,159,041</b>	<b>8,141,365</b>	<b>7,343,893</b>
<b>Net income for the period attributable to:</b>					
Equity holders of the Bank		2,453,661	2,125,614	8,020,015	7,245,594
Non-controlling interests		34,311	33,427	121,350	98,299
<b>Net income for the period</b>		<b>2,487,972</b>	<b>2,159,041</b>	<b>8,141,365</b>	<b>7,343,893</b>
<b>Basic earnings per share (expressed in SAR per share)</b>	16	<b>0.79</b>	0.68	<b>2.59</b>	2.34
<b>Diluted earnings per share (expressed in SAR per share)</b>	16	<b>0.78</b>	0.78	<b>2.58</b>	2.34

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Lama A. Ghazzawi  
Chief Financial Officer

  
Faisal O. Al-Sakkaf  
Chief Executive Officer

  
Saeed M. Al-Ghamdi  
Chairman

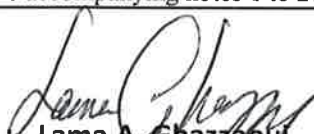
(A Saudi Joint Stock Company)

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

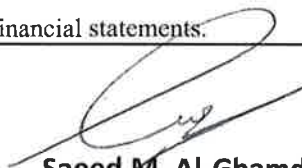
	For the three months ended		For the nine months ended	
	30 September 2018 <u>SAR '000</u>	30 September 2017 <u>SAR '000</u>	30 September 2018 <u>SAR '000</u>	30 September 2017 <u>SAR '000</u>
<b>Net income for the period</b>	<b>2,487,972</b>	2,159,041	<b>8,141,365</b>	7,343,893
<b>Other comprehensive income</b>				
<i>Items that cannot be reclassified to the interim condensed consolidated statement of income in subsequent periods</i>				
- Movement in fair value reserve (equity instruments):	(8,674)	-	(26,164)	-
<b>Other comprehensive (loss) income items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</b>				
Foreign currency translation reserve (losses)	(903,967)	(29,267)	(1,633,587)	(19,852)
<b>FVOCI debt instruments:</b>				
- Net change in fair values	83,076	-	(515,967)	-
- Transfers to the interim condensed consolidated statement of income	2,706	-	4,640	-
<b>Available for sale financial assets:</b>				
- Net change in fair values	-	(115,198)	-	(101,169)
- Transfers to the interim condensed consolidated statement of income	-	(25,299)	-	(345,537)
<b>Cash flow hedges:</b>				
- Effective portion of changes in fair values	192,601	75,229	48,144	123,451
- Transfers to the interim condensed consolidated statement of income	(209,197)	(14,359)	(52,848)	(41,623)
<b>Total other comprehensive (loss)</b>	<b>(843,455)</b>	(108,894)	<b>(2,175,782)</b>	(384,730)
<b>Total comprehensive income for the period</b>	<b>1,644,517</b>	2,050,147	<b>5,965,583</b>	6,959,163
<b>Attributable to:</b>				
Equity holders of the Bank	1,891,518	2,023,678	6,369,758	6,849,331
Non-controlling interests	(247,001)	26,469	(404,175)	109,832
<b>Total comprehensive income for the period</b>	<b>1,644,517</b>	2,050,147	<b>5,965,583</b>	6,959,163

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

  
Lama A. Ghazzaoui  
Chief Financial Officer

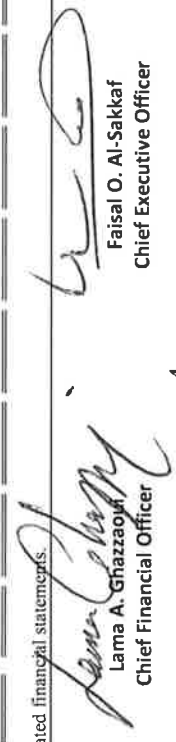
  
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Chief Executive Officer

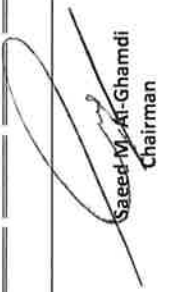
  
Saeed M. Al-Ghamdi  
Chairman

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER

	Attributable to equity holders of the Bank														
	Share capital	Treasury shares	Statutory reserve	Available for sale financial assets reserve	Cash flow hedge reserves	FVOCI reserve	Employees' share-based payments reserve	Retained earnings	Proposed dividend	Foreign currency translation reserve	Total equity attributable to shareholders of the Bank	Tier 1 Sukuk	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
Notes	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Balance as at 1 January 2018	20,000,000	(226,011)	20,266,514	132,096	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	56,040,549	7,000,000	63,040,549	1,235,049	64,275,598
IFRS 9 first time adoption impact	-	-	-	(132,096)	-	574,236	-	(1,711,069)	-	(1,268,929)	(1,268,929)	-	(1,268,929)	(40,084)	(1,309,013)
Balance as at 1 January 2018 (restated)	20,000,000	(226,011)	20,266,514	-	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965	62,966,585
Other comprehensive (loss)/income for the period	-	-	-	-	(9,014)	(508,674)	-	8,020,015	-	(1,132,569)	(1,650,257)	-	(1,650,257)	(625,525)	(2,275,782)
Net income for the period	-	-	-	-	(9,014)	(508,674)	-	8,020,015	-	(1,132,569)	8,020,015	-	8,020,015	121,350	8,141,365
<b>Total comprehensive (loss)/income for the period</b>	-	-	-	-	(9,014)	(508,674)	-	8,020,015	-	(1,132,569)	6,369,758	-	6,369,758	(404,175)	5,965,583
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	-	(2,131)	-	-	(2,131)	-	(2,131)	5,425	3,294
Tier 1 Sukuk related costs	-	-	-	-	-	-	-	(281,395)	-	-	(281,395)	-	(281,395)	-	(281,395)
Purchase of treasury shares for employee's share based payment plan	-	(112,000)	-	-	-	-	74,833	-	-	-	(112,000)	-	(112,000)	-	(112,000)
Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	-	74,833	-	-	-	74,833	-	74,833	-	74,833
Final dividend paid for 2017	-	-	-	-	-	-	-	(1,195,764)	-	-	(1,195,764)	-	(1,195,764)	-	(1,195,764)
Interim dividend paid for 2018	-	-	-	-	-	-	(2,989,409)	-	-	-	(2,989,409)	-	(2,989,409)	-	(2,989,409)
Proposed dividend reversal	-	-	-	-	-	-	1,115	(1,115)	-	-	-	-	-	-	-
Bonus issue	10,000,000	(35,302)	-	-	-	-	(9,964,698)	-	-	-	-	-	-	-	-
Zakat and tax	-	-	-	-	-	-	(1,131,646)	-	-	-	(1,131,646)	-	(1,131,646)	-	(1,131,646)
<b>Balance as at 30 September 2018</b>	<b>30,000,000</b>	<b>(373,313)</b>	<b>20,266,514</b>	<b>-</b>	<b>1,339</b>	<b>65,562</b>	<b>171,719</b>	<b>10,099,500</b>	<b>-</b>	<b>(4,727,455)</b>	<b>55,503,866</b>	<b>7,000,000</b>	<b>62,503,866</b>	<b>770,347</b>	<b>63,274,213</b>
Balance as at 1 January 2017	20,000,000	(121,011)	20,230,366	720,507	9,381	-	34,443	13,549,488	1,996,904	(3,382,663)	53,037,615	5,700,000	58,737,615	1,188,103	59,925,718
Other comprehensive (loss)/income for the period	-	-	-	(459,333)	77,054	-	-	-	-	(13,984)	(396,263)	-	(396,263)	11,533	(384,730)
Net income for the period	-	-	-	-	-	-	-	7,245,594	-	-	7,245,594	-	7,245,594	98,299	7,343,893
<b>Total comprehensive (loss)/income for the period</b>	-	-	-	(459,333)	77,054	-	-	7,245,594	-	(13,984)	6,849,331	-	6,849,331	109,832	6,959,163
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	-	(286)	-	-	(286)	-	(286)	4,690	4,404
Tier 1 Sukuk related costs	-	-	-	-	-	-	-	(242,827)	-	-	(242,827)	-	(242,827)	-	(242,827)
Tier 1 Sukuk issuance	-	-	-	-	-	-	-	-	-	-	-	1,300,000	1,300,000	-	1,300,000
Purchase of treasury shares for employee's share based payment plan	-	(105,000)	-	-	-	-	-	-	-	-	(105,000)	-	(105,000)	-	(105,000)
Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	-	-	-	-	-	-	52,939	-	-	-	52,939	-	52,939	-	52,939
Final dividend paid for 2016	-	-	-	-	-	-	-	(1,996,904)	-	-	(1,996,904)	-	(1,996,904)	-	(1,996,904)
Interim dividend paid	-	-	-	-	-	-	-	(2,196,594)	-	-	(2,196,594)	-	(2,196,594)	-	(2,196,594)
Zakat and tax	-	-	-	-	-	-	-	(965,156)	-	-	(965,156)	-	(965,156)	-	(965,156)
<b>Balance as at 30 September 2017</b>	<b>20,000,000</b>	<b>(226,011)</b>	<b>20,230,366</b>	<b>261,174</b>	<b>86,635</b>	<b>-</b>	<b>87,382</b>	<b>17,390,219</b>	<b>-</b>	<b>(3,396,647)</b>	<b>54,433,118</b>	<b>7,000,000</b>	<b>61,433,118</b>	<b>1,302,625</b>	<b>62,735,743</b>

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

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Saeed M. Al-Ghamdi  
Chairman

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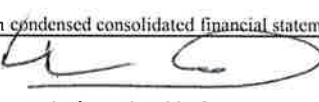
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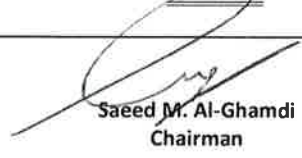
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER**

	Notes	30 September 2018 SAR '000	30 September 2017 SAR '000
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>8,141,365</b>	<b>7,343,893</b>
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Amortisation of premium on non-trading financial instruments, net		202,515	243,191
(Gains) on non-FVIS financial instruments, net		(28,784)	(423,995)
(Gains) on disposal of property, equipment and software, net		(16,341)	(11,183)
(Gains) on disposal of other real estate, net		(3,439)	(24,830)
Loss on disposal of other repossessed assets		49,408	144,362
Depreciation/amortisation of property, equipment and software		463,502	501,288
Impairment charge for financing and advances, net		943,318	1,606,900
Impairment charge on investments, net		90,562	4,520
Impairment charge on other real estate		150	-
Share of results of associates, net		(1,960)	(2,155)
Share based payments plan expense		74,833	52,939
		<b>9,915,129</b>	<b>9,434,930</b>
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposits with SAMA		(1,258,860)	368,016
Due from banks and other financial institutions with original maturity of more than three months, net		3,043,871	(3,553,708)
Held at fair value through income statement (FVIS) investments		1,473,432	117,279
Financing and advances, net		(30,343,485)	(5,431,375)
Positive fair value of derivatives, net		(1,404,514)	(138,446)
Other real estate		19,925	61,708
Other assets		610,865	(4,785,510)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		1,356,284	12,372,693
Customers' deposits		24,787,639	(12,884,052)
Negative fair value of derivatives, net		(40,989)	(196,889)
Other liabilities		2,180,962	62,436
		<b>10,340,259</b>	<b>(4,572,918)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non-(FVIS) investments		6,241,170	21,028,282
Purchase of non-FVIS investments		(11,433,153)	(26,827,505)
Purchase of property, equipment and software		(604,724)	(825,395)
Proceeds from disposal of property, equipment and software		26,410	40,453
Dividends from associates		3,750	2,501
		<b>(5,766,547)</b>	<b>(6,581,664)</b>
<b>FINANCING ACTIVITIES</b>			
Net movement in debt securities	9	(972,368)	158,945
Net movement in non-controlling interests		5,041	4,400
Tier 1 Sukuk issuance		-	1,300,000
Tier 1 Sukuk related costs		(281,395)	(242,827)
Purchase of treasury shares	12.2	(112,000)	(105,000)
Final dividend paid for 2017		(1,195,764)	(1,996,904)
Interim dividend paid		(2,989,409)	(2,196,594)
		<b>(5,545,895)</b>	<b>(3,077,980)</b>
<b>Net (decrease) in cash and cash equivalents</b>			
		<b>(972,183)</b>	<b>(14,232,562)</b>
<b>Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period</b>			
		<b>(969,440)</b>	<b>(18,039)</b>
<b>Cash and cash equivalents at the beginning of the period</b>			
		<b>28,802,159</b>	<b>35,661,453</b>
<b>Cash and cash equivalents at the end of the period</b>			
	4	<b>26,860,536</b>	<b>21,410,852</b>
<b>Special commission income received during the period</b>			
		<b>12,948,309</b>	<b>12,004,352</b>
<b>Special commission expense paid during the period</b>			
		<b>2,499,167</b>	<b>2,127,873</b>
<b>Supplemental non-cash information</b>			
Movement in other reserve and transfers to the interim condensed consolidated statement of income		<b>(516,031)</b>	<b>(364,878)</b>

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

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Faisal O. Al-Sakkaf  
Chief Executive Officer

  
Saeed M. Al-Ghamdi  
Chairman

# The National Commercial Bank

(A Saudi Joint Stock Company)

## Notes To The Interim Condensed Consolidated Financial Statements 30 September 2018 (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 shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

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 Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

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

The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon (the "branch"). The required regulatory approvals have been received and the legal formalities in respect of closure of the branch are in progress.

#### (1.2) Group's subsidiaries

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

Name of subsidiaries	Ownership %			Description
	30 September 2018	31 December 2017	30 September 2017	
NCB Capital Company (NCBC)	96.84%	97.34%	97.41%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities.



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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**1. GENERAL (continued)**

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

Name of subsidiaries	30 September <u>2018</u>	Ownership %		<u>Description</u>
		31 December <u>2017</u>	30 September <u>2017</u>	
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	<b>96.84%</b>	97.34%	97.41%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets, with a particular focus on the MENA region.
NCBC Investment Management Umbrella Company Plc.	-	97.34%	97.41%	A company incorporated in Ireland under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities "UCITS") Regulation 2011. The authorization certificate for the commencement of operations of the Umbrella Company was received in November 2012 from the Central Bank of Ireland, pursuant to which it launched two funds ("NCB Capital Saudi Arabian Equity Fund" and "NCB Capital GCC Equity Fund"), which were registered in Dublin and pre-approved by the Capital Markets Authority through its letter dated May 6, 2010 to carry out their activities in the Kingdom of Saudi Arabia.  On 29 August 2016, the Company resolved to voluntarily liquidate the operations of Umbrella Company with immediate effect. As at 30 September 2018 the liquidation proceedings are completed and the company has been dissolved.
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	<b>67.03%</b>	67.03%	67.03%	A participant bank that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.  As at 30 September 2018, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlık Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFKB.

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**1. GENERAL (continued)**

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

Name of subsidiaries	30 September <u>2018</u>	Ownership %		<u>Description</u>
		31 December <u>2017</u>	30 September <u>2017</u>	
Real Estate Development Company (REDCO)	<b>100%</b>	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	<b>100%</b>	100%	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.
Saudi NCB Markets Limited	<b>100%</b>	100%	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	<b>100%</b>	100%	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund's investment objective is to generate returns via investments in Shari'ah compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa.
AlAhli Outsourcing Company	<b>100%</b>	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the Kingdom of Saudi Arabia.
Peregrine Aviation Topco Limited ("Peregrine")	-	100%	-	A special purpose vehicle for the purpose of investing in a company which will acquire, lease and sell aircrafts located and registered in the Cayman Islands.  During the period ended 30 September 2018 the Group has lost control over Peregrine and accordingly it has not been consolidated in the interim condensed consolidated financial statements.

# **The National Commercial Bank**

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

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### **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

#### **30 September 2018 (UNAUDITED)**

## **2. BASIS OF PREPARATION**

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

These interim condensed consolidated financial statements are prepared in accordance with IAS 34 - Interim Financial Reporting as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax. The Bank prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulation for Companies in the Kingdom of Saudi Arabia and the Bank's By-laws. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

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.

The Group has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 and accounting policies for these new standards are disclosed in note 2.5. In preparing these interim condensed consolidated financial statements, the significant judgments made by management are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2017, except for as disclosed in note 3.19 considering IFRS 9 first time adoption.

### **(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 financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), FVOCI - debt instruments and FVOCI - equity instruments (31 December 2017 and 30 September 2017: also included financial assets held for trading and available for sale investments measured at fair value)]. In addition, financial assets or liabilities that are carried at amortized 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 (SAR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

### **(2.4) Basis of consolidation**

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

#### **(a) Subsidiaries**

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the 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.

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

## 2. BASIS OF PREPARATION (continued)

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

#### (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 Group exercises significant influence. Investments in associates are initially recognised 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 Group'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 recognised 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 recognised in the interim condensed consolidated statement of income.

#### (d) Transactions eliminated on consolidation

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

### (2.5) Impact of changes in accounting policies due to adoption of new standards

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the following new standards and amendments to existing standards mentioned below:

#### (2.5.1) Implication of new standards

Effective 1 January 2018 the Group has adopted three new accounting standards, the impact of the adoption of these standards is explained below:

##### **IFRS 15 Revenue from Contracts with Customers**

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which was found currently across several Standards and Interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. Based on a detailed impact assessment exercise carried out by management, it has been concluded that the adoption of IFRS 15 does not have any material impact on the Group's financial numbers.

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

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**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

**(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)**

**(2.5.1) Implication of new standards (continued)**

**IFRS 9 – Financial instruments**

The Group has adopted IFRS 9 - "Financial Instruments" issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below and are also stated in note 3.

**Classification of financial assets and financial liabilities**

*Financial assets*

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of income ("FVIS"). This classification is generally based on the business model in which a financial asset is managed and the nature/composition of its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see respective section of significant accounting policies (note 3)

*Financial liabilities*

Classification of financial liabilities under IFRS 9 remained the same as of IAS 39.

**Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9 (see note 3.8).

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

**(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)**

**(2.5.1) Implication of new standards (continued)**

**IFRS 9 – Financial instruments (continued)**

**Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as follows:

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and other reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application (1 January 2018):
  - i) The determination of the business model within which a financial asset is held.
  - ii) The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
  - iii) The designation of certain investments in equity instruments not held for trading as FVOCI.

It was concluded that the credit risk has not increased significantly for those debt securities who carry low credit risk at the date of initial application of IFRS 9.

**Financial assets and indirect facilities**

**i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

The classification for the Group's financial assets are effectively consistent between IAS 39 and IFRS 9, except for the changes in the classification for investments. The following table shows the original classification in accordance with IAS 39 and the new classification under IFRS 9 for the Group's investments as at 1 January 2018.

<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>SAR '000</b>	
		<b>Original carrying value under IAS 39</b>	<b>New carrying value under IFRS 9</b>
Held as FVIS (Fair Value through Income Statement)	FVIS	1,960,023	1,960,023
	FVOCI - equity	18,750	18,750
Available for sale	FVOCI - debt instruments	13,182,868	13,178,699
	Amortized Cost	800,640	772,316
	FVIS	3,374,596	3,374,596
Held to maturity	FVOCI - equity	14,531	14,531
	Amortized Cost	697,281	697,281
Other investments held at amortised cost	FVIS	941,857	921,607
	Amortized Cost	62,982,352	62,894,397
	FVOCI - debt instruments	30,604,927	30,987,527
	<b>Total</b>	<b>114,577,825</b>	<b>114,819,727</b>



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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

**(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)**

**(2.5.1) Implication of new standards (continued)**

**Financial assets and indirect facilities (continued)**

**ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9**

The following table reconciles the carrying amounts of Group's financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 as at 1 January 2018:

	SAR '000			IFRS 9 carrying amount as at 1 January 2018
	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	
<b>Amortised cost</b>				
<b>Cash and balances with SAMA</b>	37,969,234	-	-	37,969,234
<b>Due from banks and other financial institutions:</b>				
Opening balance	21,966,218	-	-	21,966,218
Remeasurement	-	-	(15,898)	(15,898)
<b>Closing balance</b>	21,966,218	-	(15,898)	21,950,320
<b>Financing and advances:</b>				
Opening balance	249,234,246	-	-	249,234,246
Remeasurement	-	-	(1,434,618)	(1,434,618)
<b>Closing balance</b>	249,234,246	-	(1,434,618)	247,799,628
<b>Other investments held at amortised cost:</b>				
Opening balance	94,529,136	-	-	94,529,136
From available for sale	-	800,640	(28,324)	772,316
From held to maturity	-	697,281	-	697,281
Transferred to:				
FVOCI	-	(30,604,927)	-	(30,604,927)
FVIS	-	(941,857)	-	(941,857)
Remeasurement	-	-	(87,955)	(87,955)
<b>Closing balance</b>	94,529,136	(30,048,863)	(116,279)	64,363,994
<b>Held to maturity</b>				
Opening balance	697,281	-	-	697,281
Transferred to amortized cost	-	(697,281)	-	(697,281)
<b>Closing balance</b>	697,281	(697,281)	-	-
<b>Available for sale financial assets:</b>				
Opening balance	17,372,635	-	-	17,372,635
Transferred to:				
FVOCI - equity	-	(14,531)	-	(14,531)
FVOCI - debt	-	(13,182,868)	-	(13,182,868)
FVIS	-	(3,374,596)	-	(3,374,596)
Other investments held at amortised cost	-	(800,640)	-	(800,640)
<b>Closing balance</b>	17,372,635	(17,372,635)	-	-
<b>FVOCI Investments:</b>				
Opening balance	-	-	-	-
From FVIS	-	18,750	-	18,750
From available for sale	-	13,197,399	-	13,197,399
From other investments held at amortised cost	-	30,604,927	378,431	30,983,358
<b>Closing balance</b>	-	43,821,076	378,431	44,199,507
<b>FVIS Investments:</b>				
Opening balance	1,978,773	-	-	1,978,773
Transferred to FVOCI	-	(18,750)	-	(18,750)
From available for sale	-	3,374,596	-	3,374,596
From other investments held at amortised cost	-	941,857	(20,250)	921,607
<b>Closing balance</b>	1,978,773	4,297,703	(20,250)	6,256,226

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

**(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)**

**(2.5.1) Implication of new standards (continued)**

**Financial assets and indirect facilities (continued)**

**iii) Impact on retained earnings and other reserves**

	SAR '000		
	Retained earnings	Other reserves	
		Available for sale financial assets reserve	FVOCI reserve
Balance as at 31 December 2017 - under IAS 39	18,158,718	132,096	-
Reclassifications due to IFRS 9 adoption	-	(132,096)	574,236
Recognition of expected credit losses under IFRS 9	(1,711,069)	-	-
<b>Restated balance as at 1 January 2018</b>	<b>16,447,649</b>	<b>-</b>	<b>574,236</b>

Fair value loss that would have been recognized during 2018 in interim condensed consolidated financial statements if the available for sale assets had not been reclassified is SAR 10 million.

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

**(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)**

**(2.5.1) Implication of new standards (continued)**

**Financial assets and indirect facilities (continued)**

**iv) Impact on impairment allowance for financial assets and indirect facilities**

The following table reconciles the impairment allowance recorded as per the requirements of IAS 39 to that of IFRS 9 as at 1 January 2018:

	SAR '000			1 January 2018 (under IFRS 9)
	31 December 2017 (under IAS 39)	Reclassification	Remeasurement	
Due from banks and other financial institutions	-	-	15,898	15,898
Investments, net	54,290	(23,557)	198,513	229,246
Financing and advances, net	6,800,896	-	1,434,618	8,235,514
	<u>6,855,186</u>	<u>(23,557)</u>	<u>1,649,029</u>	<u>8,480,658</u>
Indirect facilities	<u>308,793</u>	<u>-</u>	<u>100,399</u>	<u>409,192</u>

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

## 2. BASIS OF PREPARATION (continued)

### (2.5) Impact of changes in accounting policies due to adoption of new standards (continued)

#### (2.5.1) Implication of new standards (continued)

##### IFRS 7 (revised) financial instruments: disclosures (IFRS 7R)

IFRS 7 was updated to reflect the differences between IFRS 9 and IAS 39 and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 2.5, detailed qualitative and quantitative information about the ECL calculations such as the assumptions, inputs used, reconciliations etc are also disclosed in the other respective notes.

IFRS 7 also requires additional and more detailed disclosures for hedge accounting which will be disclosed in the annual consolidated financial statements for 2018, since the adoption of IFRS 9 for hedge accounting did not have a material impact on the hedging activities/accounting of the Group.

#### (2.5.2) Amendments to existing Standards

The adoption of the following below amendments to the existing standards 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 IFRS 2 – “Share based payments”, applicable for the annual periods beginning on or after 1 January 2018. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
  - The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

- The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in interim condensed consolidated statement of income.

- IFRIC 22 – “Foreign Currency Transactions and Advance Consideration”, the interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.

Furthermore, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

# The National Commercial Bank

(A Saudi Joint Stock Company)

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## Notes To The Interim Condensed Consolidated Financial Statements (continued)

### 30 September 2018 (UNAUDITED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the policies explained below. Based on the adoption of new standards explained in note 2.5, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in the consolidated financial statements of the Group for the year ended 31 December 2017.

##### 3.1) Classification of financial assets

On initial recognition, a financial asset is classified as held at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through income statement ("FVIS").

###### Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

###### Financial asset at FVOCI

###### *Debt instruments*

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

###### *Equity instruments*

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in the statement of other comprehensive income. This election is made on an investment-by-investment basis.

###### Financial asset at FVIS

All financial assets, not classified as held at amortised cost or FVOCI are classified as FVIS.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Business model assessment

The Group makes an assessment of the objective of a business model under which an asset is held, at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### 3.3 Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

# **The National Commercial Bank**

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

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### **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

#### **30 September 2018 (UNAUDITED)**

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.4 Classification of financial liabilities**

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

All money market deposits, customer deposits, term loans and other debt securities in issue are initially recognised at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through income statement.

Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective special commission rate.

#### **3.5 Embedded derivatives**

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

#### **3.6 Derecognition**

##### **Financial assets**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the interim condensed consolidated statement of income.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the interim condensed statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.



# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.7 Modifications of financial assets and financial liabilities

##### a) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the interim condensed consolidated statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

##### b) Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the interim condensed consolidated statement of income.

#### 3.8 Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Group categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – for Financial assets that are impaired, the Group recognizes the impairment allowance based on life time ECL.

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.8 Impairment (continued)

The Group also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

#### 3.9 Measurement of ECL

ECL represent probability-weighted estimates of credit losses. These are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less cash flows that the Group expects to receive any.

#### 3.10 Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

#### 3.11 Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- the market's assessment of creditworthiness as reflected in the investment yields.
- the rating agencies' assessments of creditworthiness.
- the country's ability to access the capital markets for new debt issuance.
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.12 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the interim condensed statement of financial position as follows:

*Financial assets measured at amortised cost*

- as a deduction from the gross carrying amount of the assets;

*Loan commitments and financial guarantee contracts*

- generally, as a provision;

*Financial instrument includes both a drawn and an undrawn component*

- where the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

*Debt instruments measured at FVOCI*

- no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

#### 3.13 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 3.14 Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's interim condensed consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

#### 3.15 Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### Notes To The Interim Condensed Consolidated Financial Statements (continued)

#### 30 September 2018 (UNAUDITED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.16 Financial guarantees and loan commitments

Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments, the Group recognises loss allowance.

#### 3.17 Foreign Currencies

Foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI, are recognised in OCI.

#### 3.18 Revenue / expenses recognition

##### *Special commission income and expenses*

Special commission income and expense are recognised in the interim condensed consolidated statement of income using the effective interest method. The 'special commission rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

When calculating the special commission rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted special commission rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the special commission rate includes transaction costs and fees and points paid or received that are an integral part of the special commission rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating special commission income and expense, the special commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the special commission rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, special commission income is calculated by applying the credit-adjusted special commission rate to the amortised cost of the asset. The calculation of special commission income does not revert to a gross basis, even if the credit risk of the asset improves.

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.19 Impact of changes in accounting judgements policies due to adoption of new standards**

*Impairment losses on financial assets*

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual grades.
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, and the effect on PDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**4. CASH AND CASH EQUIVALENTS**

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

	<b>30 September</b>	31 December	30 September
	<b>2018</b>	2017	2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
	<b><u>SAR '000</u></b>	<u>SAR '000</u>	<u>SAR '000</u>
Cash and balances with SAMA excluding statutory deposits	<b>17,602,849</b>	19,924,122	15,468,978
Due from banks and other financial institutions with original maturity of three months or less	<b>9,257,687</b>	8,878,037	5,941,874
<b>Total</b>	<b><u>26,860,536</u></b>	<u>28,802,159</u>	<u>21,410,852</u>

**5. INVESTMENTS, NET**

	<b>30 September</b>	31 December	30 September
	<b>2018</b>	2017	2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
	<b><u>SAR '000</u></b>	<u>SAR '000</u>	<u>SAR '000</u>
Held at FVIS	<b>4,782,793</b>	1,978,773	2,410,090
Held at FVOCI	<b>45,329,517</b>	-	-
Available for sale, net	-	17,372,635	19,279,558
Held to maturity, net	-	697,281	735,081
Investments held at amortised cost, net	<b>66,391,223</b>	94,529,136	94,475,104
<b>Total</b>	<b><u>116,503,533</u></b>	<u>114,577,825</u>	<u>116,899,833</u>

- a) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 51,259 million (31 December 2017: SAR 44,126 million and 30 September 2017: SAR 41,899 million) and also include investment in sukuk amounting to SAR 25,402 million (31 December 2017: SAR 24,283 million and 30 September 2017: SAR 29,598 million).
- b) Investments held at amortised cost include investments having an amortised cost of SAR 7,335 million (31 December 2017: SAR 13,200 and 30 September 2017: SAR 13,738 million) which are held under a fair value hedge relationship. As at 30 September 2018, the fair value of these investments amounts to SAR 7,044 million (31 December 2017: SAR 13,031 million and 30 September 2017: SAR 13,746 million).
- c) FVOCI investments include equity instruments designated as FVOCI amounting to SAR 1,319 million, including local public equities of SAR 1,301 million that were acquired during the nine months period ended 30 September 2018.



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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018**

**6. FINANCING AND ADVANCES, NET**

	SAR '000				
	<u>Consumer &amp; Credit card</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
<b>30 September 2018 (Unaudited)</b>					
Performing financing and advances	99,953,446	135,028,751	20,323,365	15,671,376	270,976,938
Non-performing financing and advances	508,722	3,509,635	1,034,367	9,498	5,062,222
<b>Total financing and advances</b>	<b>100,462,168</b>	<b>138,538,386</b>	<b>21,357,732</b>	<b>15,680,874</b>	<b>276,039,160</b>
Allowance for financing losses	(1,530,541)	(5,214,690)	(959,769)	(88,715)	(7,793,715)
<b>Financing and advances, net</b>	<b>98,931,627</b>	<b>133,323,696</b>	<b>20,397,963</b>	<b>15,592,159</b>	<b>268,245,445</b>

	SAR '000				
	<u>Consumer &amp; Credit card</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
<b>31 December 2017 (Audited)</b>					
Performing financing and advances	93,646,577	121,721,397	25,977,050	9,921,126	251,266,150
Non-performing financing and advances	566,889	2,800,304	1,399,993	1,806	4,768,992
<b>Total financing and advances</b>	<b>94,213,466</b>	<b>124,521,701</b>	<b>27,377,043</b>	<b>9,922,932</b>	<b>256,035,142</b>
Allowance for financing losses (specific and collective)	(1,335,509)	(4,145,982)	(1,261,038)	(58,367)	(6,800,896)
<b>Financing and advances, net</b>	<b>92,877,957</b>	<b>120,375,719</b>	<b>26,116,005</b>	<b>9,864,565</b>	<b>249,234,246</b>

	SAR '000				
	<u>Consumer &amp; Credit card</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
<b>30 September 2017 (unaudited)</b>					
Performing financing and advances	91,399,055	132,455,960	26,586,676	8,387,224	258,828,915
Non-performing financing and advances	558,349	2,592,612	1,517,440	1,806	4,670,207
<b>Total financing and advances</b>	<b>91,957,404</b>	<b>135,048,572</b>	<b>28,104,116</b>	<b>8,389,030</b>	<b>263,499,122</b>
Allowance for financing losses (specific and collective)	(1,323,244)	(3,957,222)	(1,326,306)	(40,395)	(6,647,167)
<b>Financing and advances, net</b>	<b>90,634,160</b>	<b>131,091,350</b>	<b>26,777,810</b>	<b>8,348,635</b>	<b>256,851,955</b>

Other financing and advances include private banking customers and financial institutions.

- a) Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara transactions amounting to SAR 221,786 million (31 December 2017: SAR 210,751 million and 30 September 2017: SAR 218,347 million).

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**6. FINANCING AND ADVANCES, NET (continued)**

- b) Movement in loss allowance for financing and advances at amortised cost and finance lease receivables for the period is as follows:

SAR '000					
30 September 2018 (Unaudited)					
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>		
	12 month	Lifetime ECL	Lifetime ECL		
Note	ECL	not credit	credit		
		impaired	impaired	Total	
<b>Balance as at 1 January 2018</b>	2.5.1-iv	2,713,436	1,700,263	3,821,815	8,235,514
Net impairment charge		102,688	90,778	1,444,387	1,637,853
Transfer to 12 months ECL		125,481	(71,305)	(54,176)	-
Transfer to lifetime ECL not credit-impaired		(41,211)	50,132	(8,921)	-
Transfer to lifetime ECL credit impaired		(23,948)	(624,410)	648,358	-
Bad debts written off		-	-	(1,527,535)	(1,527,535)
Foreign currency translation differences		(57,734)	(103,796)	(390,587)	(552,117)
<b>Balance as at 30 September 2018</b>		<u>2,818,712</u>	<u>1,041,662</u>	<u>3,933,341</u>	<u>7,793,715</u>

# **The National Commercial Bank**

(A Saudi Joint Stock Company)

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## **Notes To The Interim Condensed Consolidated Financial Statements (continued)**

**30 September 2018 (UNAUDITED)**

### **7. DERIVATIVES**

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

#### **(a) Swaps**

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

#### **(b) Forwards and futures**

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges. Changes in futures contract values are settled daily.

#### **(c) Forward rate agreements**

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

#### **(d) Options**

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

#### **(e) Structured derivative products**

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

#### **(7.1) Derivatives held for trading purposes**

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**7. DERIVATIVES (continued)**

**(7.2) Derivatives held for hedging purposes**

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps to within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

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

	<u>30 September 2018 (Unaudited)</u>			<u>31 December 2017 (Audited)</u>			<u>30 September 2017 (Unaudited)</u>		
	<u>SAR'000</u>			<u>SAR'000</u>			<u>SAR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
<b>Held for trading:</b>									
Special commission rate instruments	2,351,752	(1,135,313)	193,256,240	1,727,770	(1,119,688)	132,471,806	1,812,790	(1,843,840)	130,443,205
Forward foreign exchange contracts	582,809	(337,928)	74,761,393	318,781	(48,284)	77,702,130	411,189	(44,740)	72,574,075
Options	24,485	(19,789)	77,162	13,173	(9,482)	326,049	81,528	(16,790)	9,088,283
Structured derivatives	17,678	(19,855)	5,065,785	86,233	(90,513)	19,345,542	101,065	(103,936)	27,721,905
<b>Held as fair value hedges:</b>									
Special commission rate instruments	947,511	(180,709)	21,678,585	365,744	(276,401)	16,306,897	250,973	(339,435)	16,701,871
<b>Held as cash flow hedges:</b>									
Special commission rate instruments	107,699	(104,534)	9,937,521	176,757	(401,072)	12,487,217	140,232	(398,567)	12,150,802
<b>Total</b>	<b>4,031,934</b>	<b>(1,798,128)</b>	<b>304,776,686</b>	<b>2,688,458</b>	<b>(1,945,440)</b>	<b>258,639,641</b>	<b>2,797,777</b>	<b>(2,747,308)</b>	<b>268,680,141</b>

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**8. CUSTOMERS' DEPOSITS**

	<b>30 September 2018</b>	31 December 2017	30 September 2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
	<b><u>SAR '000</u></b>	<u>SAR '000</u>	<u>SAR '000</u>
Current accounts	257,998,524	237,768,744	231,846,424
Savings	125,398	120,628	116,602
Time	54,918,704	57,974,382	58,704,666
Others	12,418,482	13,078,366	11,924,955
<b>Total</b>	<b><u>325,461,108</u></b>	<u>308,942,120</u>	<u>302,592,647</u>

International segment customers deposits included in customers' deposits comprise of:

	<b>30 September 2018</b>	31 December 2017	30 September 2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
	<b><u>SAR '000</u></b>	<u>SAR '000</u>	<u>SAR '000</u>
Current accounts	7,034,618	6,831,719	6,580,902
Savings	-	-	-
Time	10,788,805	14,702,820	15,128,794
Others	307,828	451,496	494,315
<b>Total</b>	<b><u>18,131,251</u></b>	<u>21,986,035</u>	<u>22,204,011</u>

**9. DEBT SECURITIES ISSUED**

As at the reporting date, debt securities issued comprise of non-convertible sukuks issued by the Group, carrying profit at fixed rates, with maturities up to 2024. Below is a reconciliation of liabilities arising from financing activities:

	<b>30 September 2018</b>	31 December 2017	30 September 2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
	<b><u>SAR '000</u></b>	<u>SAR '000</u>	<u>SAR '000</u>
<b>Debt securities issued:</b>			
Balance at beginning of the period	10,250,310	9,917,765	9,917,765
Net movement in debt securities	(972,368)	263,900	158,945
Foreign currency translation adjustment	(642,322)	68,645	89,711
<b>Balance at end of the period</b>	<b><u>8,635,620</u></b>	<u>10,250,310</u>	<u>10,166,421</u>

**10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

	<b>30 September 2018</b>	31 December 2017	30 September 2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
	<b><u>SAR '000</u></b>	<u>SAR '000</u>	<u>SAR '000</u>
Letters of credit	13,168,747	10,017,194	9,828,623
Guarantees	33,850,930	40,858,305	42,950,247
Acceptances	2,191,901	2,515,109	2,765,966
Irrevocable commitments to extend credit	9,121,396	12,054,997	12,672,335
<b>Total</b>	<b><u>58,332,974</u></b>	<u>65,445,605</u>	<u>68,217,171</u>

# The National Commercial Bank

(A Saudi Joint Stock Company)

## Notes To The Interim Condensed Consolidated Financial Statements (continued)

30 September 2018 (UNAUDITED)

### 11. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 3,000,000,000 shares of SAR 10 each (31 December 2017: 2,000,000,000 shares of SAR 10 each and 30 September 2017: 2,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares consists of 2,989,409,411 shares of SAR 10 each (31 December 2017: 1,994,798,024 shares of SAR 10 each and 30 September 2017: 1,994,798,024 shares of SAR 10 each).

On 28 December 2017 (corresponding to 10 Rabi-al-thani 1439H), the Board of Directors recommended an increase of 50% to the Bank's issued share capital through a 1 for 2 bonus issue to the Shareholders of the Bank, which was approved in the Extra Ordinary General Assembly meeting dated 15 May 2018. As of the reporting date, all required approvals in respect of the Issue and corresponding increase in share capital have been obtained. Accordingly, the total shares in issue stand increased to 3,000,000,000 from 2,000,000,000 shares to reach total share capital of SAR 30,000,000,000.

### 12. SHARE BASED PAYMENTS RESERVE AND TREASURY SHARES

#### 12.1 Employee share based payment plan

The Bank established a share based compensation scheme for its key management that entitles the related personnel to be awarded shares in the Bank subject to successfully meeting certain service and performance conditions. Under the share based compensation scheme, the Bank launched various plans. Significant features of these plans are as follows:

Maturity dates	Between Dec. 2018 and Dec. 2020
Total number of shares granted on the grant date	7,060,393
Vesting period	3 years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 44.54

#### 12.2 Treasury shares

During the nine months period ended 30 September 2018, the Bank acquired further treasury shares of SAR 112 million in connection with its employee share based payment plan (note 12.1), which has been duly approved by the concerned regulatory authorities. As a result of the foregoing and together with the bonus issue by the Bank (note 11), the aggregate balance of treasury shares amounts to SAR 373 million at the reporting date.

The Bank has secured all necessary regulatory approvals in respect of the share based payment plan and purchase of treasury shares.

### 13. DIVIDEND

On 29 July 2018, the Board of Directors have approved the distribution of interim dividend of SAR 2,989 million (SAR 1.00 per share), (30 September 2017: SAR 2,197 million, SAR 1.1 per share) and accordingly, the dividend was paid in full during the third quarter of 2018.

In the annual general assembly meeting held on 15 May 2018, the shareholders have approved the distribution of final dividend for the year ended 2017 of SAR 1,197 million (SAR 0.60 per share) and accordingly, the dividend was paid in full during the second quarter of the year.

### 14. ZAKAT

Zakat assessments have been finalised with the General Authority of Zakat and Tax (GAZT) for all years up to 2011. The Bank has submitted Zakat returns for the years 2012 to 2017 and obtained final Zakat certificates. These returns are currently under review by GAZT and Zakat assessments are awaited.



# The National Commercial Bank

(A Saudi Joint Stock Company)

## Notes To The Interim Condensed Consolidated Financial Statements (continued)

30 September 2018 (UNAUDITED)

### 15. TIER 1 SUKUK

During 2017, the Bank through a Shariah compliant arrangement ("the arrangement") issued further Tier 1 Sukuk (the "Sukuk"), amounting to SAR 1.3 billion. The initial issue amounting to SAR 5.7 billion took place during the year ended 31 December 2015 under similar arrangement. These arrangements were approved by the regulatory authorities and the shareholders of the Bank.

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

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

### 16. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 30 September 2018 and 30 September 2017 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the periods ended 30 September 2018 and 30 September 2017 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank for the period by the weighted average number of outstanding shares. The diluted earnings per share are adjusted with the impact of the employees' share based payment plan.

Basic and diluted earnings per share calculation take into account the Bonus share issue.

### 17. OPERATING SEGMENTS

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

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

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

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 (continued)**  
**30 September 2018 (UNAUDITED)**

**17. 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 2018 (Unaudited)	<u>SAR'000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
<b>Total assets</b>	123,855,763	142,725,166	159,829,022	1,666,297	31,003,320	459,079,568
<b>Total liabilities</b>	262,542,369	53,983,653	52,170,601	284,157	26,824,575	395,805,355
- Customers' deposits	247,020,696	52,339,615	7,965,601	3,945	18,131,251	325,461,108
<b>Total operating income</b>	6,589,820	2,571,916	3,251,221	558,562	1,199,874	14,171,393
of which:						
- Net special commission income	5,441,136	1,949,933	2,254,327	6,654	977,376	10,629,426
- Fee income from banking services, net	1,043,023	623,368	93,749	536,909	166,566	2,463,615
- Exchange income, net	372,068	-	357,330	22	190,865	920,285
<b>Total operating expenses</b>	3,169,742	1,283,204	399,564	262,180	890,986	6,005,676
of which:						
- Depreciation/amortisation of property, equipment and software	301,512	58,845	36,566	11,746	54,833	463,502
- Impairment (reversal)/charge for financing and advances losses, net	99,067	563,381	(34,451)	-	315,321	943,318
- Impairment charge on investments, net	-	-	87,988	-	2,574	90,562
<b>Other non-operating (expenses), net</b>	(18,358)	(16,748)	(19,072)	-	29,826	(24,352)
<b>Net income for the period attributable to:</b>	3,401,720	1,271,964	2,832,585	296,382	338,714	8,141,365
- Equity holders of the Bank	3,401,720	1,271,964	2,832,585	287,018	226,728	8,020,015
- Non-controlling interests	-	-	-	9,364	111,986	121,350

30 September 2017 (Unaudited)	<u>SAR'000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
<b>Total assets</b>	111,564,806	139,842,710	154,259,370	1,562,039	38,962,365	446,191,290
<b>Total liabilities</b>	234,485,538	46,424,067	69,514,456	207,616	32,823,870	383,455,547
- Customers' deposits	229,783,004	43,832,110	6,770,081	3,441	22,204,011	302,592,647
<b>Total operating income</b>	5,969,776	3,120,793	3,089,834	461,932	1,187,357	13,829,692
of which:						
- Net special commission income	5,026,031	2,368,087	1,866,312	2,187	1,023,189	10,285,806
- Fee income from banking services, net	897,197	752,685	73,937	447,397	213,574	2,384,790
- Exchange income, net	370,417	-	428,918	27	91,064	890,426
<b>Total operating expenses</b>	3,225,748	1,709,004	342,838	253,817	871,934	6,403,341
of which:						
- Depreciation/amortisation of property, equipment and software	313,003	68,446	37,708	15,982	66,149	501,288
- Impairment charge for financing and advances losses, net	416,177	972,063	-	-	218,660	1,606,900
- Impairment charge on investments, net	-	-	4,520	-	-	4,520
<b>Other non-operating (expenses), net</b>	(13,234)	(13,811)	(18,713)	2,216	(38,916)	(82,458)
<b>Net income for the period attributable to:</b>	2,730,794	1,397,978	2,728,283	210,331	276,507	7,343,893
- Equity holders of the Bank	2,730,794	1,397,978	2,728,283	204,880	183,659	7,245,594
- Non-controlling interests	-	-	-	5,451	92,848	98,299

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

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

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

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

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

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

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

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

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

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

	<u>SAR'000</u>			
<b>30 September 2018 (Unaudited)</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	4,031,934	-	4,031,934
Financial assets held at FVIS	701,966	3,476,322	604,505	4,782,793
Financial assets held at FVOCI	37,916,185	7,248,675	164,657	45,329,517
Investments held at amortised cost, net - fair value hedged	-	7,044,628	-	7,044,628
<b>Total</b>	<u>38,618,151</u>	<u>21,801,559</u>	<u>769,162</u>	<u>61,188,872</u>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	1,798,128	-	1,798,128
<b>Total</b>	<u>-</u>	<u>1,798,128</u>	<u>-</u>	<u>1,798,128</u>

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

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

31 December 2017 (Audited)	<u>SAR'000</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,688,458	-	2,688,458
Financial assets held at FVIS	-	1,291,844	40,277	1,332,121
Financial assets available for sale	11,597,666	5,338,726	436,243	17,372,635
Held for trading	646,652	-	-	646,652
Other investments held at amortised cost, net - fair value hedged	-	13,031,739	-	13,031,739
<b>Total</b>	<u>12,244,318</u>	<u>22,350,767</u>	<u>476,520</u>	<u>35,071,605</u>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	1,945,440	-	1,945,440
<b>Total</b>	<u>-</u>	<u>1,945,440</u>	<u>-</u>	<u>1,945,440</u>
30 September 2017 (Unaudited)	<u>SAR'000</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,797,777	-	2,797,777
Financial assets held at FVIS	-	1,540,900	54,923	1,595,823
Financial assets available for sale	12,377,837	6,429,089	472,632	19,279,558
Held for trading	814,267	-	-	814,267
Other investments held at amortised cost, net - fair value hedged	-	13,745,685	-	13,745,685
<b>Total</b>	<u>13,192,104</u>	<u>24,513,451</u>	<u>527,555</u>	<u>38,233,110</u>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	2,747,308	-	2,747,308
<b>Total</b>	<u>-</u>	<u>2,747,308</u>	<u>-</u>	<u>2,747,308</u>

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

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

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

The fair value of financing and advances, net amounts to SAR 279,196 million (31 December 2017: SAR 249,850 million and 30 September 2017: SAR 257,861 million).

The fair values of due from banks and other financial institutions, investments held at amortised cost, due to banks and other financial institutions, customers deposits and debt securities issued at 30 September 2018, 31 December 2017 and 30 September 2017 approximate their carrying values.

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

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

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

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

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

There were no transfers between level 1 and level 2 during 30 September 2018 (31 December 2017: Nil and 30 September 2017: Nil).

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

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

	<b>30 September 2018 (Unaudited) SAR '000</b>	30 September 2017 (Unaudited) SAR '000
<b>Movement of level 3 is as follows:</b>		
Balance at beginning of the period	<b>476,520</b>	519,596
Total gains (realized and unrealized) in interim condensed consolidated statement of income	<b>(7,618)</b>	(36,371)
Purchases	<b>269,428</b>	120,866
(Sales)	<b>(75,019)</b>	(69,849)
(Settlement)	<b>(10,138)</b>	(6,687)
Transfer to level 3	<b>115,989</b>	-
<b>Balance at end of the period</b>	<b>769,162</b>	527,555

(A Saudi Joint Stock Company)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 September 2018 (UNAUDITED)**

**19. CAPITAL ADEQUACY**

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

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel 3 - 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 3 framework.

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

	<b>Risk weighted assets</b>		
	<b>30 September 2018 (Unaudited) SAR '000</b>	<b>31 December 2017 (Audited) SAR '000</b>	<b>30 September 2017 (Unaudited) SAR '000</b>
Credit risk	314,388,283	317,684,135	335,776,264
Operational risk	34,826,283	33,970,252	33,658,074
Market risk	11,876,619	9,452,340	10,380,150
<b>Total Pillar-1 - risk weighted assets</b>	<b>361,091,185</b>	<b>361,106,727</b>	<b>379,814,488</b>
Core capital (Tier 1)	64,316,053	63,825,327	62,260,027
Supplementary capital (Tier 2)	7,909,555	8,232,300	8,156,491
<b>Core and supplementary capital (Tier 1 and Tier 2)</b>	<b>72,225,608</b>	<b>72,057,627</b>	<b>70,416,518</b>
<b>Capital Adequacy Ratio (Pillar 1):-</b>			
Core capital (Tier 1)	<b>17.8%</b>	17.7%	16.4%
Core and supplementary capital (Tier 1 and Tier 2)	<b>20.0%</b>	20.0%	18.5%

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

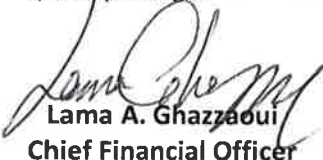
The Group uses the Standardized approach of Basel 3 to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel 3 requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

**20. COMPARATIVE FIGURES**

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

**21. BOARD OF DIRECTORS' APPROVAL**

The interim condensed consolidated financial statements were approved by the Board of Directors on 21 October 2018 (corresponding to 12 Safar 1440H).

  
**Lama A. Ghazzaoui**  
 Chief Financial Officer

  
**Faisal O. Al-Sakkaf**  
 Chief Executive Officer

  
**Saeed M. Al-Ghamdi**  
 Chairman