

**THE NATIONAL COMMERCIAL BANK**

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED  
31 MARCH 2017**



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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 statements financial position of the National Commercial Bank and its subsidiaries (collectively referred to as the "Group") as at 31 March 2017 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and the notes from 1 to 20, 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') and Saudi Arabian Monetary Authority ('SAMA') guidance on accounting for Zakat and 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" as 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'), as 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 and SAMA guidance on accounting for Zakat and Tax.

**Other regulatory matters**

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

**for Ernst & Young**  
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15 Shaban 1438H  
 (11 May 2017)

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		31 March 2017 (Unaudited) SR '000	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
	<u>Notes</u>			
<b>ASSETS</b>				
Cash and balances with SAMA		50,636,779	43,441,291	30,117,530
Due from banks and other financial institutions		20,189,018	19,213,063	23,087,212
Investments, net	3	107,977,027	111,508,971	119,886,253
Financing and advances, net	4	254,202,491	253,592,141	265,341,147
Positive fair value of derivatives, net	5	2,540,054	2,666,249	2,821,686
Investments in associates, net		430,569	431,156	427,580
Other real estate, net		826,189	849,180	874,163
Property and equipment, net		4,381,606	4,363,076	3,756,660
Goodwill and other intangible assets, net		315,258	325,733	466,027
Other assets		7,218,287	5,100,460	5,216,932
<b>Total assets</b>		<b>448,717,278</b>	<b>441,491,320</b>	<b>451,995,190</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		50,571,886	45,474,171	45,896,268
Customers' deposits	6	313,646,400	315,617,907	326,025,693
Debt securities issued		9,859,145	9,917,765	10,192,459
Negative fair value of derivatives, net	5	2,167,165	1,469,280	2,027,010
Other liabilities		10,610,491	9,086,479	9,427,698
<b>Total liabilities</b>		<b>386,855,087</b>	<b>381,565,602</b>	<b>393,569,128</b>
<b>EQUITY</b>				
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>				
Share capital	13	20,000,000	20,000,000	20,000,000
Treasury shares	14	(121,011)	(121,011)	-
Statutory reserve		20,230,366	20,230,366	19,383,697
Other reserves (cumulative changes in fair values)		503,235	730,088	952,277
Share based payments reserve	14	43,054	34,443	-
Retained earnings		15,795,770	13,549,488	12,080,536
Proposed dividend	16	1,996,904	1,996,904	1,500,000
Foreign currency translation reserve		(3,478,666)	(3,382,663)	(2,646,185)
<b>Equity attributable to shareholders of the Bank</b>		<b>54,969,652</b>	<b>53,037,615</b>	<b>51,270,325</b>
Tier 1 Sukuk	11	5,700,000	5,700,000	5,700,000
<b>Equity attributable to equity holders of the Bank</b>		<b>60,669,652</b>	<b>58,737,615</b>	<b>56,970,325</b>
<b>NON-CONTROLLING INTERESTS</b>				
<b>Total equity</b>		<b>61,862,191</b>	<b>59,925,718</b>	<b>58,426,062</b>
<b>Total liabilities and equity</b>		<b>448,717,278</b>	<b>441,491,320</b>	<b>451,995,190</b>

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	<u>Note</u>	<u>2017</u> <u>SR '000</u>	<u>2016</u> <u>SR '000</u>
Special commission income		4,221,601	4,396,916
Special commission expense		(861,188)	(961,094)
<b>Net special commission income</b>		<b>3,360,413</b>	<b>3,435,822</b>
Fee income from banking services, net		802,125	919,092
Exchange income, net		324,632	275,443
Income (loss) from FVIS investments, net		31,513	(53,820)
Trading income (loss), net		61,078	(42,652)
Dividend income		5,726	25,004
Gains on non-trading investments, net		359,832	230,384
Other operating (expenses), net		(85,498)	(65,304)
<b>Total operating income</b>		<b>4,859,821</b>	<b>4,723,969</b>
Salaries and employee-related expenses		840,426	865,562
Rent and premises-related expenses		183,928	190,630
Depreciation of property and equipment		195,141	164,481
Amortisation of intangible assets		-	47,334
Other general and administrative expenses		468,709	430,478
Impairment charge for financing and advances losses, net		421,981	346,625
Impairment charge on investments, net		758	1,140
<b>Total operating expenses</b>		<b>2,110,943</b>	<b>2,046,250</b>
<b>Income from operations, net</b>		<b>2,748,878</b>	<b>2,677,719</b>
<b>Other (expenses), net</b>			
Other non-operating (expenses), net		(15,407)	(23,995)
<b>Other (expenses), net</b>		<b>(15,407)</b>	<b>(23,995)</b>
<b>Net income for the period</b>		<b>2,733,471</b>	<b>2,653,724</b>
<b>Net income for the period attributable to:</b>			
Equity holders of the Bank		2,702,559	2,630,814
Non-controlling interests		30,912	22,910
<b>Net income for the period</b>		<b>2,733,471</b>	<b>2,653,724</b>
<b>Basic and diluted earnings per share (expressed in SR per share)</b>	10	<b>1.35</b>	<b>1.32</b>

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	<b>2017</b>	2016
	<b>SR '000</b>	SR '000
<b>Net income for the period</b>	<b>2,733,471</b>	2,653,724
<b>Other comprehensive (loss)/income items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</b>		
Foreign currency translation reserve (losses)/gains	<b>(138,072)</b>	202,992
<b>Available for sale investments:</b>		
- Net change in fair values	<b>(16,679)</b>	347,331
- Transfers to interim condensed consolidated statement of income	<b>(253,691)</b>	(130,835)
<b>Cash flow hedges:</b>		
- Effective portion of change in fair values	<b>61,471</b>	82,274
- Net transfers to interim condensed consolidated statement of income	<b>(10,356)</b>	(93,553)
<b>Total other comprehensive (loss)/income</b>	<b>(357,327)</b>	408,209
<b>Total comprehensive income for the period</b>	<b>2,376,144</b>	3,061,933
<b>Attributable to:</b>		
Equity holders of the Bank	<b>2,379,703</b>	2,997,359
Non-controlling interests	<b>(3,559)</b>	64,574
<b>Total comprehensive income for the period</b>	<b>2,376,144</b>	3,061,933

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	Attributable to equity holders of the Bank														
	Notes	Other reserves					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 holder of the Bank	Non-controlling interests	Total equity
		Share capital	Treasury shares	Statutory reserve	Available for sale financial assets reserve	Cash flow hedge reserves									
Balance as at 1 January 2017		20,000,000	(121,011)	20,230,366	720,507	9,581	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
Total comprehensive income/(loss) for the period															
Exchange difference on translating foreign operations		-	-	-	-	-	-	-	-	(96,003)	(96,003)	-	(96,003)	(42,069)	(138,072)
Net changes in fair value of cash flow hedges		-	-	-	-	59,779	-	-	-	-	59,779	-	59,779	1,692	61,471
Net changes in fair values of available for sale investments		-	-	-	(22,585)	-	-	-	-	-	(22,585)	-	(22,585)	5,906	(16,679)
Net transfers to interim condensed consolidated statement of income		-	-	-	(253,691)	(10,356)	-	-	-	-	(264,047)	-	(264,047)	-	(264,047)
Net income for the period		-	-	-	-	-	-	2,702,559	-	-	2,702,559	-	2,702,559	30,912	2,733,471
		-	-	-	(276,276)	49,423	-	2,702,559	-	(96,003)	2,379,703	-	2,379,703	(3,559)	2,376,144
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	(489)	-	-	(489)	-	(489)	7,995	7,506
Tier 1 Sukuk related costs	11	-	-	-	-	-	-	(74,788)	-	-	(74,788)	-	(74,788)	-	(74,788)
Share based payments reserve	14	-	-	-	-	-	8,611	-	-	-	8,611	-	8,611	-	8,611
Zakat	12	-	-	-	-	-	-	(381,000)	-	-	(381,000)	-	(381,000)	-	(381,000)
<b>Balance as at 31 March 2017</b>		<b>20,000,000</b>	<b>(121,011)</b>	<b>20,230,366</b>	<b>444,231</b>	<b>59,004</b>	<b>43,054</b>	<b>15,795,770</b>	<b>1,996,904</b>	<b>(3,478,666)</b>	<b>54,969,652</b>	<b>5,700,000</b>	<b>60,669,652</b>	<b>1,192,539</b>	<b>61,862,191</b>
Balance as at 1 January 2016		20,000,000	(190,510)	19,383,697	729,084	(2,537)	-	9,833,777	1,495,975	(2,787,000)	48,462,486	5,700,000	54,162,486	1,383,071	55,545,557
Total comprehensive income/(loss) for the period															
Exchange difference on translating foreign operations		-	-	-	-	-	-	-	-	140,815	140,815	-	140,815	62,177	202,992
Net changes in fair value of cash flow hedges		-	-	-	-	78,741	-	-	-	-	78,741	-	78,741	3,533	82,274
Net changes in fair values of available for sale investments		-	-	-	371,377	-	-	-	-	-	371,377	-	371,377	(24,046)	347,331
Net transfers to interim condensed consolidated statement of income		-	-	-	(130,835)	(93,553)	-	-	-	-	(224,388)	-	(224,388)	-	(224,388)
Net income for the period		-	-	-	-	-	-	2,630,814	-	-	2,630,814	-	2,630,814	22,910	2,653,724
		-	-	-	240,542	(14,812)	-	2,630,814	-	140,815	2,997,359	-	2,997,359	64,574	3,061,933
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	(1,063)	-	-	(1,063)	-	(1,063)	8,092	7,029
Disposal of treasury shares	14.1(b)	-	190,510	-	-	-	-	-	-	-	190,510	-	190,510	-	190,510
Gain on disposal of treasury shares	14.1(b)	-	-	-	-	-	-	8,717	-	-	8,717	-	8,717	-	8,717
Tier 1 Sukuk related costs	11	-	-	-	-	-	-	(67,169)	-	-	(67,169)	-	(67,169)	-	(67,169)
Zakat	2.1&12	-	-	-	-	-	-	(320,515)	-	-	(320,515)	-	(320,515)	-	(320,515)
Adjustments in proposed final dividend for 2015		-	-	-	-	-	-	(4,025)	4,025	-	-	-	-	-	-
<b>Balance as at 31 March 2016 (Restated)</b>		<b>20,000,000</b>	<b>-</b>	<b>19,383,697</b>	<b>969,626</b>	<b>(17,349)</b>	<b>-</b>	<b>12,080,536</b>	<b>1,500,000</b>	<b>(2,646,185)</b>	<b>51,270,325</b>	<b>5,700,000</b>	<b>56,970,325</b>	<b>1,455,737</b>	<b>58,426,062</b>

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	<u>Notes</u>	<u>2017</u> <u>SR' 000</u>	<u>2016</u> <u>SR' 000</u>
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>2,733,471</b>	2,653,724
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Amortisation of premium on non-trading investments, net		87,448	141,828
(Gains) on non-trading investments, net		(359,832)	(230,384)
(Gains) on disposal of property and equipment, net		(4,657)	(5,530)
(Gains) on disposal of other real estate, net		(8,250)	-
Loss on disposal of other repossessed assets		36,513	6,494
Depreciation of property and equipment		195,141	164,481
Amortisation of intangible assets		-	47,334
Impairment charge on investments, net		758	1,140
Impairment charge for financing and advances, net		421,981	346,625
Share of results of associates		587	(3,780)
Share based payment expense		8,611	-
		<u>3,111,771</u>	<u>3,121,932</u>
<b>Net decrease/(increase) in operating assets:</b>			
Statutory deposits with SAMA		683,252	1,375,885
Due from banks and other financial institutions with original maturity of more than three months		(4,871,223)	1,294,949
Held as fair value through income statement (FVIS) investments		63,106	94,741
Financing and advances, net		(2,155,785)	(11,607,029)
Positive fair value of derivatives, net		118,159	(138,704)
Other real estate		28,681	31,951
Other assets		(1,904,694)	(713,411)
<b>Net (decrease)/increase in operating liabilities:</b>			
Due to banks and other financial institutions, net		5,335,241	(2,863,764)
Customers' deposits		(1,252,374)	1,581,639
Negative fair value of derivatives, net		711,067	333,840
Other liabilities		1,162,746	133,099
		<u>1,029,946</u>	<u>(7,354,872)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non-trading / non-FVIS investments		10,208,525	16,193,796
Purchase of non-trading / non-FVIS investments		(6,866,490)	(1,641,126)
Purchase of property and equipment		(251,646)	(800,569)
Proceeds from disposal of property and equipment		20,029	620,026
		<u>3,110,419</u>	<u>14,372,127</u>
<b>FINANCING ACTIVITIES</b>			
Net movement in debt securities	17	139,747	24,762
Net movement in non-controlling interests		7,503	(15,882)
Tier 1 Sukuk related costs		(74,789)	(67,169)
Proceeds from sale of treasury shares		-	199,227
		<u>72,461</u>	<u>140,938</u>
Net increase in cash and cash equivalents		4,212,826	7,158,193
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		(91,869)	87,858
Cash and cash equivalents at the beginning of the period		35,661,453	15,805,052
		<u>39,782,410</u>	<u>23,051,104</u>
<b>Cash and cash equivalents at the end of the period</b>	8	<b>39,782,410</b>	23,051,104
Special commission income received during the period		4,085,108	4,217,838
Special commission expense paid during the period		709,668	649,481
		<u>4,085,108</u>	<u>4,217,838</u>
		<u>709,668</u>	<u>649,481</u>
<b>Supplemental non-cash information</b>			
Movement in other reserve and transfers to interim consolidated statement of income		(219,255)	205,217
		<u>(219,255)</u>	<u>205,217</u>

The accompanying notes 1 to 20 form an integral part of these 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

#### 31 March 2017 and 2016 (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 closure is expected to be completed in due course.

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

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

###### (a) NCB Capital Company (NCBC)

The Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities. The Bank has a 90.71% (31 December 2016: 90.71% and 31 March 2016: 90.71%) direct ownership interest in NCBC and an indirect ownership of 6.39% (31 December 2016: 7.14% and 31 March 2016: 6.46%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

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

The Group has a 97.1% (31 December 2016: 97.85% and 31 March 2016: 97.17%) ownership interest in NCB Capital Dubai Inc. (exempt company with limited liability incorporated in the Cayman Islands). The objective of NCB Capital Dubai Inc. is to source, structure and invest in attractive private equity and real estate development opportunities across emerging markets, with a particular focus on the MENA region.



# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 31 March 2017 and 2016 (UNAUDITED)

#### 1. GENERAL (continued)

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

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

The Group has a 97.1% (31 December 2016: 97.85% and 31 March 2016: 97.17%) effective aggregate ownership in NCB Capital Saudi Arabian Equity Fund and NCB Capital GCC Equity Fund both of which are registered in Dublin, Ireland under NCBC Investment Management Umbrella Company Plc. The Funds have been established for investments in GCC and KSA based equities via two special purpose entities (SPEs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

The Shareholders of the NCBC Investment Management Umbrella Company Plc on 29 August 2016 resolved to voluntary liquidate its operations with immediate effect. At 31 March 2017, the legal proceedings to liquidate the company are under process. Moreover, as of 31 March 2017, NCB Capital KSA Equity Fund and NCB Capital GCC Equity Fund and the related SPEs stand liquidated.

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

The Bank has a 67.03% (31 December 2016: 67.03% and 31 March 2016: 67.03%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

At 31 March 2017, TFK fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlık Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuk by TFK.

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

The Bank formed REDCO as a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Bank has a 100% ownership (31 December 2016: 100% and 31 March 2016: 100%) in REDCO. The objectives of REDCO primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

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

The Bank has 100% (31 December 2016: 100% and 31 March 2016: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

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

The Bank formed Saudi NCB Markets Limited as a Limited Liability Company registered in the Cayman Islands. The Bank has 100% ownership. The objectives of Saudi NCB Markets Limited is trading in derivatives and Repos/Reverse Repos on behalf of Bank.

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

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

# **The National Commercial Bank**

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

#### **31 March 2017 and 2016 (UNAUDITED)**

#### **1. GENERAL (continued)**

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

###### **(i) AlAhli Esnad Company**

The Bank has 100% (31 December 2016: 100% and 31 March 2016: Nil) effective ownership in Alahli Esnad Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Company is engaged in recruitment services in the Kingdom of Saudi Arabia.

#### **2. BASIS OF PREPARATION**

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

During 2017, Saudi Arabian Monetary Authority (SAMA) issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and income tax. The impact of these amendments are as follows:

- i) the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- ii) Zakat and income tax are to be accrued on a quarterly basis and recognized in consolidated statement of shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position

Applying the above framework, the interim condensed consolidated financial statements of the Group for the three months period ended 31 March 2017 have been prepared using the International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) and SAMA guidance on accounting for Zakat and Income Tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards (IFRS). This change in framework resulted in a change in accounting policy for Zakat and Income Tax (as disclosed in note 2.5) and the effects of this change are disclosed in note 12 to the interim condensed consolidated financial statements.

The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Companies Law in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2016.

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 31 March 2017 and 2016 (UNAUDITED)

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

##### (2.2) Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at fair value through income statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at 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 (SR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

##### (2.4) Basis of consolidation

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

###### (a) Subsidiaries

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

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

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

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

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

###### (c) Associates

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

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

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

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**31 March 2017 and 2016 (UNAUDITED)**

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

**(2.5) Significant accounting policies**

The accounting policies used in the preparation of the 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 2016, except for:

**Change in the accounting policy in relation to accounting for Zakat:**

As mentioned in note 2.1(ii), the Group amended its accounting policy relating to Zakat and has started to accrue Zakat on a quarterly basis with a corresponding charge to retained earnings. Previously, Zakat was recorded at the year end in the consolidated statement of changes in equity with a corresponding liability recorded in the consolidated statement of financial position. The Group has accounted for this change in the accounting policy relating to Zakat retrospectively and the effects of the above change are disclosed in note 12 to the interim condensed consolidated financial statements.

**Amendments to existing standards:**

- Amendments to IAS 7 Statement of Cash Flows: The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments are intended to provide information to help investors better understand changes in an entity's debt.
- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)
- The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale or distribution. These amendments apply retrospectively.

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**3. INVESTMENTS, NET**

	<b>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
Held as FVIS (Fair Value through Income Statement) (see note (a))	<b>2,464,263</b>	2,527,369	2,746,575
Available for sale, net	<b>20,194,282</b>	20,435,502	25,507,022
Held to maturity, net	<b>1,096,276</b>	1,432,432	1,604,493
Other investments held at amortized cost, net (see note (b))	<b>84,222,206</b>	87,113,668	90,028,163
<b>Total</b>	<b>107,977,027</b>	111,508,971	119,886,253

- a) FVIS investments include investments held for trading amounting to SR 709 million (31 December 2016: SR 708 million and 31 March 2016: SR 781 million).
- b) Other investments held at amortized cost include investments having an amortized cost of SR 4,581 million (31 December 2016: SR 4,207 and 31 March 2016: SR 8,685 million) which are held under a fair value hedge relationship. As at 31 March 2017, the fair value of these investments amounts to SR 4,602 million (31 December 2016: SR 4,239 million and 31 March 2016: SR 9,039 million).

Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 27,079 million, (31 December 2016: SR 25,549 million and 31 March 2016: SR 5,788 million) and also include investment in sukuks amounting to SR 28,599 million, (31 December 2016: SR 28,979 million and 31 March 2016: SR 32,785 million).

**4. FINANCING AND ADVANCES, NET**

	<b>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
Consumer and credit card	<b>90,354,725</b>	90,114,404	88,192,933
Corporate	<b>157,583,861</b>	157,278,610	170,112,807
Others	<b>8,321,115</b>	8,202,052	8,860,857
Performing financing and advances	<b>256,259,701</b>	255,595,066	267,166,597
Non-performing financing and advances	<b>4,096,095</b>	3,925,482	3,962,347
<b>Total financing and advances</b>	<b>260,355,796</b>	259,520,548	271,128,944
Allowance for financing and advances losses	<b>(6,153,305)</b>	(5,928,407)	(5,787,797)
<b>Financing and advances, net</b>	<b>254,202,491</b>	253,592,141	265,341,147

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 209,156 million, (31 December 2016: SR 208,918 million and 31 March 2016: SR 219,812 million).

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**5. DERIVATIVES**

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

	<u>31 March 2017 (Unaudited)</u>			<u>31 December 2016 (Audited)</u>			<u>31 March 2016 (Unaudited)</u>		
	<u>SR'000</u>			<u>SR'000</u>			<u>SR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
<b>Held for trading:</b>									
Special commission rate instruments	1,625,178	(1,429,432)	103,045,101	1,540,395	(1,365,467)	98,996,336	1,405,468	(1,275,782)	70,975,226
Forward foreign exchange contracts	341,826	(66,242)	78,039,947	419,845	(121,199)	83,576,806	290,582	(270,645)	97,308,866
Options	75,240	(62,688)	8,573,109	61,550	(29,797)	523,504	913	(1)	132,188
Structured derivatives	140,016	(138,678)	39,336,556	278,803	(278,803)	48,547,647	868,547	(868,438)	94,820,333
<b>Held as fair value hedges:</b>									
Special commission rate instruments	232,214	(280,001)	7,586,594	221,128	(280,887)	7,217,146	164,014	(732,043)	12,815,042
<b>Held as cash flow hedges:</b>									
Special commission rate instruments	127,678	(453,590)	11,875,248	144,745	(559,037)	11,645,102	92,379	(439,675)	12,175,476
<b>Total</b>	<b>2,542,152</b>	<b>(2,430,631)</b>	<b>248,456,555</b>	<b>2,666,466</b>	<b>(2,635,190)</b>	<b>250,506,541</b>	<b>2,821,903</b>	<b>(3,586,584)</b>	<b>288,227,131</b>
Provision for counterparty risk	(2,098)	-		(217)	-		(217)	-	
Margin deposits	-	263,466		-	1,165,910		-	1,559,574	
Fair values after netting	<b>2,540,054</b>	<b>(2,167,165)</b>		<b>2,666,249</b>	<b>(1,469,280)</b>		<b>2,821,686</b>	<b>(2,027,010)</b>	

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**6. CUSTOMERS' DEPOSITS**

	<b>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
Current accounts	235,774,629	223,632,826	230,664,796
Savings	152,579	162,044	156,377
Time	66,128,282	79,010,150	80,657,788
Others	11,590,910	12,812,887	14,546,732
<b>Total</b>	<b>313,646,400</b>	<b>315,617,907</b>	<b>326,025,693</b>

**7. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

	<b>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
Letters of credit	8,920,760	8,330,546	10,349,890
Guarantees	44,364,607	45,218,054	50,348,731
Acceptances	2,950,126	2,716,738	3,661,494
Irrevocable commitments to extend credit	11,857,105	11,715,673	12,129,440
<b>Total</b>	<b>68,092,598</b>	<b>67,981,011</b>	<b>76,489,555</b>

**8. CASH AND CASH EQUIVALENTS**

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

	<b>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
Cash and balances with SAMA excluding statutory deposits	32,989,205	25,110,465	12,512,271
Due from banks and other financial institutions with original maturity of three months or less	6,793,205	10,550,988	10,538,833
<b>Total</b>	<b>39,782,410</b>	<b>35,661,453</b>	<b>23,051,104</b>

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 31 March 2017 and 2016 (UNAUDITED)

#### 9. 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 <i>Shariah</i> rules which are supervised by the independent <i>Shariah</i> 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 <i>Shariah</i> 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.



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**9. 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:

31 March 2017	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	105,445,535	145,281,722	157,120,170	1,394,300	39,475,551	448,717,278
Total liabilities	218,017,258	75,027,615	60,034,180	186,536	33,589,498	386,855,087
Total operating income from external customers	1,482,417	1,844,980	953,887	163,660	414,877	4,859,821
- Intersegment operating income (expense)	456,074	(601,464)	172,045	-	(26,655)	-
Total operating income	1,938,491	1,243,516	1,125,932	163,660	388,222	4,859,821
of which:						
<i>Net special commission income</i>	1,568,030	929,514	546,656	359	315,854	3,360,413
<i>Fee income from banking services, net</i>	279,300	267,117	25,454	159,538	70,716	802,125
Total operating expenses	1,041,724	530,899	154,977	83,459	299,884	2,110,943
of which:						
- Depreciation of property and equipment	122,525	27,942	16,333	8,481	19,860	195,141
- Impairment charge for financing losses, net	78,250	259,515	-	-	84,216	421,981
- Impairment charge on investments, net	-	-	758	-	-	758
Net income (Bank and non-controlling interests)	894,168	709,387	966,472	79,676	83,768	2,733,471

31 March 2016	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	104,251,208	147,625,067	146,859,454	1,484,039	51,775,422	451,995,190
Total liabilities	213,763,456	81,812,974	52,662,563	206,920	45,123,215	393,569,128
Total operating income from external customers	1,587,575	1,438,286	976,491	159,511	562,106	4,723,969
- Intersegment operating income (expense)	382,560	(397,669)	40,794	-	(25,685)	-
Total operating income	1,970,135	1,040,617	1,017,285	159,511	536,421	4,723,969
of which:						
<i>Net special commission income</i>	1,488,966	778,158	623,190	13	545,495	3,435,822
<i>Fee income from banking services, net</i>	399,515	232,993	21,401	163,402	101,781	919,092
Total operating expenses	1,083,352	311,823	104,528	85,886	460,661	2,046,250
of which:						
- Depreciation of property and equipment	99,000	21,912	12,768	7,933	22,868	164,481
- Impairment charge for financing losses, net	112,849	77,351	3,000	-	153,425	346,625
- Impairment charge on investments, net	-	-	1,140	-	-	1,140
Net income (Bank and non-controlling interests)	882,017	724,069	907,711	77,405	62,522	2,653,724

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2017 and 2016 (UNAUDITED)

#### 10. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 31 March 2017 and 31 March 2016 is calculated by dividing the net income attributable to equity holders of the Bank for the periods by the weighted average number of shares outstanding during the period. Diluted earning per share approximates earning per share (EPS).

#### 11. TIER 1 SUKUK

During 2015, the Bank through a *Shariah* compliant arrangement ("the arrangement") issued Tier 1 Sukuks (the "Sukuks"), aggregating to SR 5.7 billion. The arrangement was approved by the regulatory authorities and the shareholders of the Bank.

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

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

#### 12. ZAKAT

Zakat assessments have been finalized 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 2015 and obtained final Zakat certificates. The Zakat returns for the years 2012 to 2015 are currently under review by GAZT and Zakat assessment for these years is awaited.

The change in the accounting policy for Zakat (as explained in note 2.5) resulted in an increase in the provision for Zakat (included under other liabilities) of SR 381 million as at 31 March 2017 (31 March 2016: SR 321 million) with a corresponding debit to retained earnings as at that date. The foregoing change in accounting policy did not have an impact on interim condensed consolidated statements of income, comprehensive income and cash flows for any of the period presented.

#### 13. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2016: 2,000,000,000 shares of SR 10 each and 31 March 2016: 2,000,000,000 shares of SR 10 each). The capital of the Bank excluding treasury shares consists of 1,996,903,527 shares of SR 10 each (31 December 2016: 1,996,903,527 shares of SR 10 each and 31 March 2016: 2,000,000,000 shares of SR 10 each).

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

##### 14.1 Employee share based payment plan

On 18 October 2016, the Bank established a share based compensation plan ("equity settled share based payment plan") for its key management that entitles the related personnel to award shares in the Bank subject to successfully meeting certain service and performance conditions ("plan conditions"). The vesting period shall be three years commencing 1 January 2016.

##### 14.2 Treasury shares

a) During the year ended 31 December 2016, the bank in connection with its employee share based payment plan (see note 14.1), purchased its own shares amounting to SR 121 million to be held for the employee share based payment plan which have been classified as treasury shares and presented under shareholders' equity in the interim condensed consolidated statement of equity.

b) During the period ended 31 March 2016, the Bank disposed of treasury shares amounting to SR 191 million (previously acquired in satisfaction of debt), at a net gain of SR 8.7 million.

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

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

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

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

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

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

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

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

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

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

	<u>(SR '000)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>31 March 2017 (Unaudited)</b>				
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,540,054	-	2,540,054
Financial assets designated at FVIS	-	1,649,018	106,735	1,755,753
Financial assets available for sale	11,605,900	8,101,840	486,542	20,194,282
Held for trading	708,510	-	-	708,510
Other investments held at amortized cost, net - fair value hedged	-	4,601,859	-	4,601,859
<b>Total</b>	<b>12,314,410</b>	<b>16,892,771</b>	<b>593,277</b>	<b>29,800,458</b>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	2,167,165	-	2,167,165
<b>Total</b>	<b>-</b>	<b>2,167,165</b>	<b>-</b>	<b>2,167,165</b>

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

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

	(SR '000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 December 2016 (Audited)				
<u>Financial assets</u>				
Derivative financial instruments	-	2,666,249	-	2,666,249
Financial assets designated at FVIS	-	1,713,941	105,076	1,819,017
Financial assets available for sale	12,513,409	7,507,573	414,520	20,435,502
Held for trading	708,352	-	-	708,352
Other investments held at amortized cost, net - fair value hedged	-	4,239,300	-	4,239,300
<b>Total</b>	<u>13,221,761</u>	<u>16,127,063</u>	<u>519,596</u>	<u>29,868,420</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	1,469,280	-	1,469,280
<b>Total</b>	<u>-</u>	<u>1,469,280</u>	<u>-</u>	<u>1,469,280</u>

	(SR '000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 March 2016 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	2,821,686	-	2,821,686
Financial assets designated at FVIS	-	1,817,160	148,897	1,966,057
Financial assets available for sale	19,213,082	5,582,850	711,090	25,507,022
Held for trading	780,518	-	-	780,518
Other investments held at amortized cost, net - fair value hedged	-	9,039,277	-	9,039,277
<b>Total</b>	<u>19,993,600</u>	<u>19,260,973</u>	<u>859,987</u>	<u>40,114,560</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	2,027,010	-	2,027,010
<b>Total</b>	<u>-</u>	<u>2,027,010</u>	<u>-</u>	<u>2,027,010</u>

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**15. 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 SR 257,302 million (31 December 2016: SR 249,953 million and 31 March 2016: SR 263,400 million).

The fair values of due from banks and other financial institutions, held to maturity investments, other investments held at amortized cost, due to banks and other financial institutions, customers deposits and debt securities issued at 31 March 2017, 31 December 2016 and 31 March 2016 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 31 March 2017 (31 December 2016: Nil and 31 March 2016: Nil).

**16. DIVIDEND**

On 26 January 2017 the Board of Directors have approved the distribution of final dividend of SR 1,997 million (SR 1.00 per share), (31 March 2016: SR 1,500 million, SR 0.75 per share) and accordingly, the dividend will be paid in full during second quarter 2017.

**17. DEBT SECURITIES**

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

	<b>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) SR '000
<b>Debt securities issued:</b>			
At beginning of the period	<b>9,917,765</b>	9,940,717	9,940,717
Net movement in debt securities	<b>139,747</b>	53,048	24,762
Foreign currency translation adjustment	<b>(198,367)</b>	(76,000)	226,980
<b>At end of the period</b>	<b><u>9,859,145</u></b>	<u>9,917,765</u>	<u>10,192,459</u>

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**18. CAPITAL ADEQUACY**

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

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

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>31 March 2017 (Unaudited) SR '000</b>	31 December 2016 (Audited) SR '000	31 March 2016 (Unaudited) (Restated) SR '000
Credit risk	<b>340,590,155</b>	311,695,219	337,521,764
Operational risk	<b>33,292,844</b>	32,802,763	29,606,328
Market risk	<b>7,894,115</b>	8,048,978	7,534,979
<b>Total Pillar-1 - risk weighted assets</b>	<b>381,777,114</b>	352,546,960	374,663,071
Core capital (Tier 1)	<b>61,592,873</b>	59,670,175	57,946,977
Supplementary capital (Tier 2)	<b>8,059,000</b>	8,025,155	7,768,695
<b>Core and supplementary capital (Tier 1 and Tier 2)</b>	<b>69,651,873</b>	67,695,330	65,715,672
<b>Capital Adequacy Ratio (Pillar 1):-</b>			
Core capital (Tier 1)	<b>16.1%</b>	16.9%	15.5%
Core and supplementary capital (Tier 1 and Tier 2)	<b>18.2%</b>	19.2%	17.5%

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

**19. COMPARATIVE FIGURES**

Except for as described in note 2.1, certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

**20. BOARD OF DIRECTORS' APPROVAL**

The interim condensed consolidated financial statements were approved by the Board of Directors on 14 Shabaan 1438H (corresponding to 10 May 2017).