PROSPECTUS

The National Commercial Bank

The subscription of five hundred million (500,000,000) ordinary shares, representing 25% of The National Commercial Bank's issued share capital (the "Subscription") for subscription in accordance with the directive of His Majesty and the Resolution of the Board of Directors of the Public Investment Fund No. 10/118/1435H dated 2/6/1435H (corresponding to 2/4/2014G), at a price of forty five (45) Saudi Riyals per share.

Offer Period: starts on Sunday 25/12/1435H (corresponding to 19/10/2014G) and ends on Sunday 9/1/1436H (corresponding to 2/11/2014G).

The National Commercial Bank

A Saudi Joint Stock Company formed pursuant to Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G) with commercial registration number 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G).

The National Commercial Bank (the "**Company**" or "**NCB**") was originally founded in 1939G as the "Saleh and Abdulaziz Kaki and Salem Bin Mahfouz Company" and commenced business as a general partnership under a registration certificate ratified by Royal Decree No. 48 dated 28/7/1369H (corresponding to 15 May 1950G). NCB was converted into a joint stock company pursuant to Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G), with commercial registration number 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G). The current share capital of the Company is twenty billion (20,000,000,000) Saudi Riyals, consisting of two billion (2,000,000,000) ordinary shares, with a fully paid nominal value of ten (10) Saudi Riyals per share ("**Shares**"). As at the date of this Prospectus, the only substantial shareholders in the Company who own 5% or more of the issued share capital of the Company are the Public Investment Fund ("**PIF**") which owns 69.29%, and the General Organization for Social Insurance ("**GOSI**") which owns 10%.

Based on the directive of His Majesty, the Board of Directors of PIF issued Resolution No. 10/118/1435H on 2/6/1435H (corresponding to 2/4/2014G), which requires PIF to sell, during the current fiscal year 2014G, five hundred million (500,000,000) of PIF's shares of NCB's capital (the "**Subscription Shares**"), equalling 25% of NCB's capital at a subscription price of forty five (45) Saudi Riyals per share (the "**Subscription Price**"). According to the resolution of the Board of Directors of PIF, subscription shall take place as follows:

(A) three hundred million (300,000,000) of the Subscription Shares representing 15% of NCB's share capital (the "**Retail Allocation**"), will be allocated for subscription by Saudi individuals only, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood (the "**Subscribers**"). A subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant; and

(B) two hundred million (200,000,000) of the Subscription Shares, representing 10% of NCB's share capital (the "**PPA Allocation**") will be allocated for direct subscription by the Public Pension Agency (the "**PPA**") at the Subscription Price.

The Subscription Shares are being sold by PIF (in such capacity, the "**Selling Shareholder**") whose shareholding will decrease from 69.29% to 44.29% after the Subscription. The net proceeds from the Subscription will be distributed to the Selling Shareholder and the Company will not receive any part of the proceeds from the Subscription (see section 8 - "*Use of Proceeds and Expenses*").

The Retail Allocation will commence on Sunday 25/12/1435H (corresponding to 19 October 2014G) and will remain open for a period of 14 days up to and including the closing date of the Retail Allocation on Sunday 9/1/1436H (corresponding to 2 November 2014G) (the "**Subscription Period**"). Subscription to the Retail Allocation can be made through branches of each of the Receiving Agents (the "**Receiving Agents**") mentioned on pages ix and x (see the section titled "*Subscription Process*" on page xiii) during the Subscription Period. Each individual Subscriber to the Retail Allocation must submit a subscription form and the minimum subscription amount is ten (10) shares for each Subscriber. There is no maximum subscription amount (taking into account the limitations set forth in the Capital Market Law, its implementing regulations and any operative instructions). The remaining Retail Allocation, if any, shall be allocated in accordance with the proposal of the Lead Managers after conferring with the Capital Markets Authority (the "**CMA**"). Excess subscription monies, if any will be returned to Subscribers without any commission, charge or withholding by the Lead Managers or the Receiving Agents. Notification of the final allocation and the refund of subscription monies, if any, will be made no later than 16/1/1436H (corresponding to 9 November 2014G) (see section 12 - "*Subscription Terms and Conditions*"). The PPA Allocation will be effective on the same date as the allocation of the Retail Allocation to individual Subscribers.

The Company has one class of ordinary shares and each Share entitles the holder to one vote and each shareholder holding at least 20 Shares has the right to attend and vote at a general assembly. No Share carries preferential voting rights applicable to its holder. The Subscription Shares will be entitled to receive any dividends declared by the Company after the publication of this Prospectus and for subsequent fiscal years (see section 7 - "*Dividend Policy*").

Prior to the Subscription, there has been no public market for the Shares in the Kingdom of Saudi Arabia (the "**Kingdom**") or elsewhere. An application has been made to the CMA for the registration and approval of listing of the Shares. All the relevant approvals pertaining to this Prospectus and all other supporting documents requested by the CMA, except for the waivers mentioned in section 11- "*Waivers*". In addition, all relevant regulatory approvals required to conduct the Subscription have been granted. Trading in the Shares is expected to commence on the Saudi stock exchange (the "**Exchange**" or "**Tadawul**") soon after the final allocation of the Subscription Shares and completion of all applicable regulatory requirements (see the "*Key Dates for Subscribers and Subscription Procedures*" section of this Prospectus). Saudi Nationals, non-Saudi nationals holding valid residency permits in the Kingdom, and companies, banks, and mutual funds established in the Kingdom or in countries of the Cooperation Council for the Arab States of the Gulf (the "**GCC**"), as well as GCC nationals will be permitted to trade in the Shares. Non-Saudi nationals living outside the Kingdom and institutions registered outside the Kingdom (hereinafter referred to as "**Foreign Investors**") will also have the right to acquire economic benefits in the Shares by entering into swap agreements with persons authorised by the CMA (hereinafter referred to as "**Authorised Persons**") to purchase shares listed on the Tadawul and to trade such shares in favour of Foreign Investors. It should be noted that Authorised Persons remain the legal owners of the shares under the swap agreements.

Subscribing for Subscription Shares involves certain risks and uncertainties. For a discussion of certain factors to be considered in connection with a subscription for the Subscription Shares, see "*Important Notice*" and section 2 - "*Risk Factors*".

Financial Advisers and Lead Managers

Receiving Agents

This Prospectus includes information given in compliance with the Listing Rules (as defined below) of the CMA. The directors of the Company (the "**Directors**"), whose names appear on page 91, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and the Exchange do not take any responsibility for the contents of this Prospectus, do not make any representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

This unofficial English language translation of the official Arabic language Prospectus is provided for information purposes only. The Arabic language Prospectus published on the CMA's website (www.cma.org.sa) remains the only official, legally binding version and shall prevail in the event of any conflict between the two texts.

This Prospectus has been issued on 26/11/1435H (corresponding to 21 September 2014G).

NCB الأهلي

IMPORTANT NOTICE

This Prospectus provides full details of information relating to the Company and the Subscription Shares. In subscribing for the Retail Allocation, Subscribers will be treated as applying only on the basis of the information contained in this Prospectus, copies of which are available for collection from the Company's head office and the Receiving Agents or by visiting the websites of the Company (www.alahli.com), the CMA (www.cma.org.sa), GIB Capital L.L.C. (www.gibcapital.com) or HSBC Saudi Arabia Limited (www.hsbcsaudi.com).

GIB Capital L.L.C. and HSBC Saudi Arabia Limited have each been appointed by the Company to act as financial advisers (together, the "**Financial Advisers**") and lead managers (together, the "**Lead Managers**") in relation to the Subscription.

This Prospectus includes details given in compliance with the listing rules issued by the CMA (the "**Listing Rules**"). The Directors, whose names appear in section 5-2 *"Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*", collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and the Tadawul do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, substantial portions of the information about the market and the industry in which the Company operates are derived from external sources, and while neither the Company, the Financial Advisers, the Lead Managers, nor any of the Company's other advisers (whose names appear on pages vi and vii of this Prospectus) (the "**Company's Advisers**") have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified by the Company or by any of its advisors. As such, no representation or warranty is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the financial position of the Company and the value of the Shares may be adversely effected by future developments in inflation, interest rates, taxation, or economic, political and other factors, over which the Company has no control (see section 2 - "*Risk Factors***"**). Neither the delivery of this Prospectus nor any oral or written communication in relation to the Subscription Shares is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

This Prospectus is not to be regarded as a recommendation on the part of the Company, the Directors, the Selling Shareholder or any of the Company's Advisers to participate in the Subscription. Moreover, the information provided in this Prospectus is of a general nature and has been prepared without taking into consideration the individual investment objectives, financial condition or particular investment needs of a prospective individual Subscriber. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice in relation to the Subscription and for considering the appropriateness of the information contained herein with regard to the recipient's individual objectives, financial situations and needs.

Subscription to the Retail Allocation is limited to Saudi individuals only, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood. A subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant.

The distribution of this Prospectus and the sale of the Subscription Shares in any jurisdiction other than the Kingdom is expressly prohibited. The Company, the Selling Shareholder, the Financial Advisers and the Lead Managers require recipients of this Prospectus to inform themselves of any regulatory restrictions relevant to the Subscription Shares and to observe all such restrictions.

INDUSTRY AND MARKET DATA

In this Prospectus, information regarding the banking industry and other data regarding the market segments in which the Company and its subsidiaries operate (together, the "**Group**") has been obtained from: (i) the Company's estimates; and (ii) data and analysis on the banking industry, which were obtained from various publicly available third party sources and materials. While the Company believes that such information, sources, and estimates are reliable, they have not been independently verified by the Company, the Directors or any of the Company's Advisers and no representation is made with respect to their accuracy, correctness or completeness.

Industry and market data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any survey of market size.

The publicly available sources of information and materials used in the Prospectus include:

1. The Saudi Arabian Monetary Agency ("**SAMA**"), established in 1372H (corresponding to 1952G). SAMA's objectives are as follows:

   - to issue and strengthen the Saudi currency and to stabilize its internal and external value;
   - to deal with the banking affairs of the government of the Kingdom (the "**Government**"); and
   - to regulate commercial banks and exchange dealers.

In addition, SAMA's functions in relation to circulation of currency and regulation of commercial banks are as follows:

- to stabilize and strengthen the internal and extern value of the currency and take measures capable of strengthening the currency's cover;
- to hold and operate monetary reserve funds as separate funds earmarked for monetary purposes only;
- to mint, print and issue the Saudi currency and handle all matters relating thereto in conformity with Saudi Currency Law No.24, dated 23rd Jumada Awal 1377H; and
- to regulate commercial banks and exchange dealers as may be found appropriate.

Saudi Arabian Monetary Agency
P.O. Box 2992 Riyadh 11169
Kingdom of Saudi Arabia
Tel: +966 (11) 463 3000
Fax: +966 (11) 466 2966
Email: info@sama.gov.sa
Website: www.sama.gov.sa

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Agency

2. The Central Department of Statistics and Information (the "CDSI"), established under the General Statistics Law of Saudi Arabia, promulgated by Royal Decree No. 23, dated 07/12/1379H (corresponding to 2 June 1960G). CDSI is affiliated to the Ministry of Economy and Planning, and is considered to be the only official source of statistics in the Kingdom. CDSI is responsible for supplying Government departments of and public and private institutions and individuals with information and official statistical data. The information prepared by CDSI, which was used in this Prospectus, particularly with regard to the information on the Saudi economy, is general information and are publicly available and can be obtained without the need for prior approval.

Central Department of Statistics and Information:
P.O. Box 3735, Riyadh 11481
Kingdom of Saudi Arabia
Tel: +966 (11) 4014138
Fax: +966 (11) 4059493
Email: info@cdsi.gov.sa
Website: www.cdsi.gov.sa

مصلحة الإحصاءات العامة والمعلومات
Central Department of Statistics & Information

3. The Ministry of Finance (the “**MOF**”), formed in Saudi Arabia in 1351H (corresponding to 1932G). MOF performs the following duties:
   - supervising implementation of the Government’s fiscal policy and monitoring its implementation by the relevant agencies;
   - preparing the Government’s budget, discussing it with Government agencies and monitoring its implementation;
   - controlling the current accounts between the MOF and all other Government agencies;
   - monitoring the predisbursement phase of budgetary funds for all Government agencies;
   - supervising Government revenue collection activities and ensuring that they comply with the relevant rules and regulations;
   - supervising the annual closing of the Government’s accounts and expenditures;
   - supervising and protecting Government’s properties;
   - representing the Government in international and regional economic and financial institutions, monitoring international financial and economic developments, and preparing the necessary studies and reports;
   - implementing the Government’s resolutions with respect to external assistance; and
   - monitoring implementation of the Government’s policy for providing loans to individuals and national corporations for various developmental activities through its banks and funds, including the Agricultural Bank, the Credit Bank, the Saudi Industrial Development Fund, the Real Estate Development Fund (“**REDF**”), and the Public Investment Fund.

Ministry of Finance
King AbdulAziz Road
Riyadh 11177
Kingdom of Saudi Arabia
Tel: +966 (11) 4050000
Fax: +966 (11) 4033130
Email: info@mof.gov.sa
Website: www.mof.gov.sa

FINANCIAL INFORMATION

The Company’s audited consolidated financial statements for the financial years ended 31 December 2011G, 2012G and 2013G and the notes attached to them, and the initial consolidated financial statements for the six months periods ended 30 June 2013G and 30 June 2014G and the notes attached to them, have been prepared in conformity with accounting standards for financial institutions promulgated by SAMA and with International Financial Reporting Standards (“**IFRS”**) and have been audited by the Company’s auditors Ernst & Young and KPMG Al Fozan & Al Sadhan (the “**Auditors**”). The Company publishes its financial statements in Saudi Riyals.

FORECASTS AND FORWARD LOOKING STATEMENTS

Forecasts set forth in this Prospectus have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute “forward-looking-statements”. Such statements can generally be identified by their use of forward-looking words such as “plans”, “intends”, “estimates”, “believes”, “anticipates”, “may”, “will”, “should”, “expected”, “would be”, “sees” or the negative or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (see section 2 - “*Risk Factors*”). Should any one or more of the risks or uncertainties materialise or any underlying assumptions relied on prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated, planned or expected.

Subject to the requirements of the Listing Rules, the Company must submit a supplementary prospectus to the CMA if at any time after the Prospectus has been approved by the CMA and before acceptance and listing, the Company becomes aware that: (1) there has been a significant change in essential matters contained in the Prospectus or any document required by the Listing Rules, or (2) additional significant matters have become known which would have been required to be included in the Prospectus. Except in the two aforementioned circumstances, the Company does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Prospective Subscribers should consider all forward-looking statements in light of the above and should not place undue reliance on forward-looking statements.

PARTIES AND ADVISERS

COMPANY

The National Commercial Bank
King Abdulaziz Road
P.O. Box 3555
Jeddah 21481
Kingdom of Saudi Arabia
Telephone: +966 (12) 646 4000
Fax: +966 (12) 643 7426
Email: Investorsrelation@alahli.com
Website: www.alahli.com

AUTHORISED REPRESENTATIVES OF THE COMPANY TO THE CMA

Mansour Saleh Al Maiman
The National Commercial Bank
King Abdulaziz Road
P.O. Box 3555
Jeddah 21481
Kingdom of Saudi Arabia
Telephone: +966 (12) 646 4636
Fax: +966 (12) 646 4466
Email: Chairman@alahli.com
Website: www.alahli.com

Saeed Mohammed Al Ghamdi
The National Commercial Bank
King Abdulaziz Road
P.O. Box 3555
Jeddah 21481
Kingdom of Saudi Arabia
Telephone: +966 (12) 646 4944
Fax: +966 (12) 646 4466
Email: CEO@alahli.com
Website: www.alahli.com

FINANCIAL ADVISERS AND LEAD MANAGERS

GIB Capital L.L.C.
3rd Floor, NCCI South Tower
King Fahad Road
P.O. Box 89589
Riyadh 11673
Kingdom of Saudi Arabia
Tel: +966 (11) 218 0555
Fax: +966 (11) 218 0055
Email: contact@gibcapital.com
Website: www.gibcapital.com

HSBC Saudi Arabia Limited
HSBC Head Office
Olaya Road (Al-Murooj)
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia
Tel: +966 (11) 299 2313
Fax: +966 (11) 299 2424
Email: saudiarabia@hsbc.com
Website: www.hsbcsaudi.com

STOCK EXCHANGE

Saudi Stock Exchange (Tadawul)
NCCI building – North Tower
700 King Fahd Road
P.O. Box 60612
Riyadh 11555
Kingdom of Saudi Arabia
Tel: +966 (11) 218 9999
Fax: +966 (11) 218 1220
Email: webinfo@tadawul.com.sa
Website: www.tadawul.com.sa

LEGAL ADVISER

Law Office of Salman M. Al-Sudairi in association with Latham & Watkins LLP
King Fahad Road
Tatweer Towers, Tower 1, 7th Floor
P.O. Box 17411
Riyadh 11474
Kingdom of Saudi Arabia
Tel: +966 (11) 207 2500
Fax: +966 (11) 207 2577
Email: infoRiyadh@lw.com
Website: www.lw.com

PROFESSIONAL FINANCIAL DUE DILIGENCE ADVISER

PricewaterhouseCoopers
Kingdom Tower, 21 Floor
King Fahad Road
P.O. Box 13933
Riyadh 11414
Kingdom of Saudi Arabia
Tel: +966 (11) 211 0400
Fax: +966 (11) 211 0401
Email: project.leader@sa.pwc.com
Website: www.pwc.com

PUBLIC RELATION CONSULTANT

ADVERT ONE
Al-Shawaf International Company Limited
Al-Safwa Center
P.O. Box 43307 Riyadh 11561
Kingdom of Saudi Arabia
Tel: +966 (11) 2886632
Tel: +966 (11) 2886632
info@advert1.com

AUDITORS TO THE COMPANY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2011G, 2012G, 2013G AND THE SIX MONTH PERIODS ENDED 30 JUNE 2013G AND 2014G

Ernst & Young
Level 6 & 14, Al Faisaliah Office Tower
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia
Tel: +966 (11) 273 4740
Fax: +966 (11) 273 4730
Email: riyadh@sa.ey.com
Website: www.ey.com

KPMG Al Fozan & Al Sadhan
KPMG Tower
Salahuddin Ayoubi Road
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Tel: +966 (11) 874 8500
Fax: +966 (11) 874 8600
Email: marketingsa@kpmg.com
Website: www.kpmg.com.sa

The Company's Advisers mentioned above have given, and not withdrawn as at the date of this Prospectus, their written consent to the reference to their names, addresses and logos and the publication of their statements in the form and context set out in this Prospectus. It should be noted that neither the Company's Advisers, nor their affiliates, employees nor (to the extent applicable) their husband, wife or any first degree relative (each a "Relative") have any shareholding or interest of any kind in the Company or any of its subsidiaries as of the date of this Prospectus.

Arab National Bank
King Faisal Street
P. O. Box 56921, Riyadh 11564
Kingdom of Saudi Arabia
Tel: +966 (11) 402 9000
Fax: +966 (11) 402 7747
E-mail: abinayba@anb.com.sa
Website: www.anb.com.sa

Banque Saudi Fransi
Ma'ather Road
P.O. Box 56006, Riyadh 11554
Kingdom of Saudi Arabia
Tel: +966 (11) 289 9999
Fax: +966 (11) 404 2311
E-mail: communications@alfransi.com.sa
Website: www.alfransi.com.sa

Riyad Bank
King Abdulaziz Road
P.O. Box 22622, Riyadh 11614
Kingdom of Saudi Arabia
Tel: +966 (11) 401 3030
Fax: +966 (11) 404 2618
E-mail: customercare@riyadbank.com
Website: www.riyadbank.com

Samba Financial Group
King Abdulaziz Road
P.O. Box 833, Riyadh 11421
Kingdom of Saudi Arabia
Tel: +966 (11) 477 4770
Fax: +966 (11) 479 9402
E-mail:customercare@samba.com
Website: www.samba.com

Saudi Hollandi Bank
Prince Abdul Aziz bin Mousaed bin Jlouwi Street
P.O. Box 1467, Riyadh 11431
Kingdom of Saudi Arabia
Tel: +966 (11) 401 0288
Fax: +966 (11) 403 1104
E-mail: csc@saudihollandibank.com
Website: www.shb.com.sa

The National Commercial Bank
King Abdulaziz Road
P.O. Box 3555, Jeddah 21481
Kingdom of Saudi Arabia
Tel: 920001000
Fax: +966 (12) 6465892
Email: paymentoperations@alahli.com
Website: www.alahli.com

The Saudi British Bank
P. O. Box 9084, Riyadh 11413
Kingdom of Saudi Arabia
Tel: +966 (11) 440 8888
Fax: +966 (11) 276 4356
E-mail: sabb@sabb.com
Website: www.sabb.com

RECEIVING AGENTS

The Saudi Investment Bank
Ma'ather Road
P.O. Box 3533, Riyadh 11481
Kingdom of Saudi Arabia
Tel: +966 (11) 4786000
Fax: +966 (11) 4776781
E-mail: ir@saib.com.sa
Website: www.saib.com.sa

البنك السعودي للاستثمار
The Saudi Investment Bank

As a bank organized and existing in the Kingdom, NCB deals with all other banks organized and existing in the Kingdom and several international banks in the ordinary course of its business.

SUMMARY OF THE SUBSCRIPTION

This summary of the Subscription aims to provide a brief summary of the information relating to the Subscription. As it is a summary, it does not contain all the information which may be of importance to interested Subscribers. Recipients of this Prospectus should read it in full prior to making any decision as to whether or not to invest in the Retail Allocation. Capitalised and abbreviated terms have the meanings ascribed to them in the "Terms and Definitions" section and elsewhere in this Prospectus.

Company	The National Commercial Bank (the "Company" or "NCB") is a Saudi joint stock company incorporated in the Kingdom pursuant to Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G) approving NCB's conversion from a general partnership (originally established in 1939G and commencing its business as a partnership on 28/07/1369H (corresponding to 15 May 1950G)) to a joint stock company, which occurred on 25/2/1418H (corresponding to 1 July 1997G) with commercial registration number 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G). NCB's head office and registered office is The National Commercial Bank Head Office, Jeddah, Kingdom of Saudi Arabia.
Activities of the Group	The Group provides a wide range of both conventional and Shari'ah-compliant banking services.
Substantial Shareholders	(see table below)
Selling Shareholder	PIF.
Authorised Share Capital	Twenty billion (20,000,000,000) Saudi Riyals.
Total Number of Authorised Shares	Two billion (2,000,000,000) Shares.
Nominal Value	Ten (10) Saudi Riyals per Share.
Number of Subscription Shares in the Retail Allocation	Three hundred million (300,000,000) Shares.

Substantial Shareholders:

	Number of Shares		Percentage of Ownership	
	Pre-Subscription	Post-Subscription	Pre-Subscription	Post-Subscription
Public Investment Fund	1,385,893,333	885,893,333	69.29%	44.29%
General Organization for Social Insurance	200,000,000	200,000,000	10%	10%
Public Pension Agency	874,765	200,874,765	0.04%	10.04%
Total	1,586,768,098	1,286,768,098	79.33%	64.33%

Number of Subscription Shares in the PPA Allocation	Two hundred million (200,000,000) Shares.
Percentage of Subscription Shares in the Retail Allocation to Issued Shares	15%.
Percentage of Subscription Shares in the PPA Allocation to Issued Shares	10%.
Total Number of Subscription Shares	500,000,000 Shares.
Total Percentage of Subscription Shares	25%.
Subscription Price	Forty Five (45) Saudi Riyals per Share.
Total value of the Subscription	Twenty two billion and five hundred million (22,500,000,000) Saudi Riyals.
Use of Proceeds	The proceeds of the Subscription is expected to be twenty two billion and five hundred million (22,500,000,000), and after deducting all the offer expenses and costs, amounting to approximately twenty five million (25,000,000) Saudi Riyals, the net proceeds will be paid to the Selling Shareholder. The Company will not receive any part of the proceeds from the Subscription. (See section 8- "Use of Proceeds and Expenses").
Number of shares underwritten	Based on a waiver from the requirements of Article 18(a) of the Listing Rules, shares will not be underwritten.
Total value of the shares underwritten	Based on a waiver from the requirements of Article 18(a) of the Listing Rules, shares will not be underwritten.
Target Subscribers	Subscription to the Retail Allocation is limited to Saudi individuals only, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, to the Retail Allocation, provided she submits proof of her marital status and motherhood. A subscription to the Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant.
How should Subscribers apply for the Retail Allocation	Individual Subscribers may obtain Subscription Application Forms during the Subscription Period at the branches of the Receiving Agents and from the website of each Receiving Agent. The price of all subscribed shares must be paid at the branches of the Receiving Agents through one of the following methods: (1) authorising the bank to withdraw from the Subscriber's account with the Receiving Agent to which the Subscription Application Form was submitted, (2) the provision of a certified bank cheque payable to the order of "The National Commercial Bank Subscription", or (3) in cash. If the subscriber does not have an account with the Receiving Agent, he must pay by a certified bank cheque payable to the order of "National Commercial Bank Subscription" or in cash. A Subscriber may not alter or cancel a Subscription Application Form once submitted to a Receiving Agent. Subscription forms must be completed in accordance with the instructions set forth in section 12- "Subscription Terms and Conditions". In addition, subscription will be available through the internet, telephone banking and automated teller machines at the branches of the Receiving Agents that provide some or all of these services to Individual Subscribers who have participated in recent initial public offerings provided that: (1) the Subscriber maintains a current account with the relevant Receiving Agent which provides such services; and (2) no changes have occurred to the Individual Subscriber's details since the last recent initial public offering to which such Individual Subscriber subscribed.
Minimum Number of Shares to which an Individual Subscriber May Subscribe	Ten (10) Shares.
Minimum Value of Shares to which an Individual Subscriber May Subscribe	Four hundred and fifty (450) Saudi Riyals.

Maximum Number of Shares to which an Individual Subscriber May Subscribe	There is no maximum (taking into account the limitations set forth in the Capital Market Law, its implementing regulations and any operative instructions).
Maximum Value of Shares to which an Individual Subscriber May Subscribe	There is no maximum (taking into account the limitations set forth in the Capital Market Law, its implementing regulations and any operative instructions).
Subscription Period	The Subscription Period will commence on Sunday 25/12/1435H (corresponding to 19 October 2014G) and will remain open for a period of 14 days up to and including Sunday 9/1/1436H (corresponding to 2 November 2014G) (the "Closing Date").
The Allocation Process	The Allocation Process and Refunding Excess Subscription Monies will be announced no later than 16/1/1436H (corresponding to 9 November 2014G). The minimum subscription amount is ten (10) Shares for each Subscriber. There is no maximum subscription amount (taking into account the limitations set forth in the Capital Market Law, its implementing regulations and any operative instructions). The remaining Retail Allocation, if any, shall be allocated in accordance with the proposal of the Lead Managers after conferring with the CMA.
Refunding Excess Subscription Monies	Excess subscription monies, if any will be returned to Subscribers without any commission, charge or withholding by the Lead Managers or the Receiving Agents. Notification of the final allocation and the refund of subscription monies, if any, will be made no later than 16/1/1436H (corresponding to 9 November 2014G) (see section 12 - "Subscription Terms and Conditions").
Dividend Distribution	The Subscription Shares will be entitled to receive any dividends declared by the Company after the publication date of this Prospectus and for subsequent fiscal years (see section 7 - "Dividend Policy").
Voting rights	The Company has one class of Shares and no holder of Shares (a "Shareholder") benefits from any preferential voting rights. Each Share entitles its holder to one vote and each Shareholder holding at least 20 Shares has the right to attend and vote at a General Assembly (see section 10-1 "Legal Information – Summary of the Company's Bylaws").
Restrictions on Dealing in Shares	PIF and GOSI may not dispose of any of their shares during a period of nine (9) months from the date on which the Subscription Shares began trading on the Tadawul. At the end of the lock-in period of nine (9) months, the aforementioned shareholders may dispose of their shares on the condition that they obtain the CMA's and SAMA's prior approval.
Listing of Shares	Prior to the Subscription, there has been no public market for the Shares in the Kingdom or elsewhere. An application has been made to the CMA for the registration of the Shares and the acceptance of their listing. All relevant approvals relating to the Subscription and pertaining to this Prospectus and all other supporting documents requested by the CMA have been granted, except for the exclusions stated in section 11- "Waivers". Trading in the Shares is expected to commence on the Tadawul soon after the final allocation of the Shares. Please see the "Key Dates for Subscribers and Subscription Procedures" section of this Prospectus.
Offering Expenses	The expenses related to the Subscription are estimated at twenty five million (25,000,000) Saudi Riyals inclusive of the fees of the Financial Advisers, the Lead Managers, the legal adviser, the Receiving Agents, the professional financial due diligence adviser, marketing and printing and distribution fees as well as other fees related to the Subscription. The Selling Shareholder will bear all of the expenses in relation to the Subscription.
Total Offering Proceeds after Deducting the aggregate expenses of the Subscription	Twenty two billion and four hundred and seventy five million (22,475,000,000) Saudi Riyals.
Risk Factors	There are certain risks related to investment in NCB. These risks are outlined under section 2- "Risk Factors" and they must be carefully considered before making any decision to invest in NCB.

KEY DATES FOR SUBSCRIBERS AND SUBSCRIPTION PROCEDURES

Key Dates for Subscribers

Subscription Period	From Sunday 25/12/1435H (corresponding to 19 October 2014G) until Sunday 9/1/1436H (corresponding to 2 November 2014G)
Last date for submission of Subscription Application Form and subscription monies	Sunday 9/1/1436H (corresponding to 2 November 2014G)
Final Allocation Notification	Sunday 16/1/1436H (corresponding to 9 November 2014G)
Refund of excess funds to Subscribers (in the event of over-subscription)	Sunday 16/1/1436H (corresponding to 9 November 2014G)
Expected date for the commencement of trading in the Shares, including the Subscription Shares	Trading in the Shares is expected to commence after satisfaction of all applicable requirements and completion of all necessary procedures. The commencement date of trading will be communicated through local newspapers published in the Kingdom and on the Tadawul website. (www.tadawul.com.sa)

The above timetable and all dates therein are indicative. Actual dates will be communicated through local newspapers published in the Kingdom as well as on the website of the Tadawul (www.tadawul.com.sa) and the CMA (www.cma.org.sa).

SUBSCRIPTION PROCESS

The Retail Allocation is directed at and is limited to Saudi Nationals, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood. A subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant.

Individual Subscribers may obtain Subscription Application Forms during the Subscription Period at the branches of the Receiving Agents and from the website of each Receiving Agent. The price of all subscribed shares must be paid at the branches of the Receiving Agents through one of the following methods:

(1) authorising the bank to withdraw from the Subscriber's account with the Receiving Agent to which the Subscription Application Form was submitted,

(2) the provision of a certified bank cheque payable to the order of "National Commercial Bank Subscription", or

(3) in cash.

If the Subscriber does not have an account with the Receiving Agent, he must pay by a certified bank cheque payable to the order of "The National Commercial Bank Subscription" or in cash. A Subscriber may not alter or cancel a Subscription Application Form once submitted to a Receiving Agent. Subscription Application Forms must be completed in accordance with the instructions set forth in section 12- "*Subscription Terms and Conditions*" of this Prospectus.

In addition, subscription will be available through the internet, telephone banking and automated teller machines at the branches of the Receiving Agents that provide some or all of these services to Individual Subscribers who have participated in recent initial public offerings provided that:

(1) the Subscriber maintains a current account with the relevant Receiving Agent which provides such services; and

(2) no changes have occurred to the Individual Subscriber's details since the last recent initial public offering to which such Individual Subscriber subscribed.

Each Individual Subscriber must fill in the Subscription Application Forms pursuant to the instructions provided in section 12- "*Subscription Terms and Conditions*" of this Prospectus and must agree to all the terms contained in the Subscription Application Form. The Company and the Selling Shareholder reserve their right to reject any subscription request in full or in part if it breaches any of the subscription conditions and instructions. No subscription request may be amended or withdrawn after it has been submitted, as once it has been submitted it is considered a binding agreement between the applicant and the Company (See section 12- "*Subscription Terms and Conditions*").

SUMMARY OF KEY INFORMATION

This summary of key information aims to provide a brief summary of the information contained in this Prospectus. As it is a summary, it does not contain all the information which may be of importance to interested Subscribers. Recipients of this Prospectus should read it in full prior to making any decision as to whether or not to invest in the Retail Allocation. Capitalised and abbreviated terms have the meanings ascribed to them in the "*Terms and Definitions*" section and elsewhere in this Prospectus.

OVERVIEW OF THE COMPANY

Corporate History

In 1358H (1939G), Mr. Saleh Moussa Kaki, Mr. Abdulaziz Mohammed and Mr. Salim Ahmed Bin Mahfouz opened a currency exchange office. On 5/9/1369H (corresponding to 21 June 1950G), that office was converted to a partnership among them in the name of "Saleh & Abdulaziz Al Kaki and Salem Bin Mahfouz" under registration certificate No. 48 ratified by Royal Decree dated 28/7/1369H (corresponding to 15 May 1950G) and under the instrument number 788 issued by the Mecca Notary Public and dated 9/5/1369H (corresponding to 21 June 1950G). The Company's articles of association were amended and the Company's name changed to become the "National Commercial Bank", as recorded before the Mecca Notary Public under number 1063 as of 8/8/1374H (corresponding to 1 April 1955G). The Company operated as a partnership registered in the Jeddah trade register under registration number 4030001588 dated as of 27/12/1376H (corresponding to 25 July 1957G) until it was converted into a Saudi joint stock company on 1 July 1997G by Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G) and registered under commercial registration No. 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G).

In 1990G, NCB embarked upon a major rationalisation programme, which involved an increase in capital, a reduction of its workforce and a reorganisation of its core banking businesses.

In May 1999G, the Government, through PIF, acquired a 50.00% stake in NCB together with management control from the Bin Mahfouz family (which had previously owned 98.00% of NCB). During that year, the Government, through PIF, sold a 10.00% stake in NCB to GOSI and Khalid Bin Mahfouz, the then Chairman and General Manager of NCB, resigned from NCB and a new management team was appointed to run NCB. The new Board approved a comprehensive review of NCB's outstanding loan portfolio and increased the provisions for non-performing loans ("**NPLs"**). Accordingly, new loan loss provisions were approved which caused NCB to record a significant loss for the 1999G financial year. This, in turn, led the Board at that time to approve a Senior Management recommendation to forgo the distribution of any dividend payments to NCB's Shareholders until NCB's Shareholders' equity was restored to the amount as at 31 December 1998G (which occurred in 2002G).

In late 2001G, the remaining shares of NCB still owned by the Bin Mahfouz family were purchased by the Government (through PIF) and other Saudi nationals and companies established in the Kingdom, which increased the Government's ownership stake in NCB to 79.29%, consisting of 69.29% owned by PIF and 10.00% owned by GOSI.

In 2002G, NCB realized a profit of 2,433 million Saudi Riyals, entirely exceeding losses that accumulated in 1999G, and raising shareholders' equity above the 1998G level (8,028 million Saudi Riyals), reaching 8,918 million Saudi Riyals.

In 2004G, NCB announced that it would make its entire branch network in the Kingdom *Shari'ah*-compliant. Since 2006G, all products offered through NCB's branches been have been *Shari'ah*-compliant. In addition, each of the Corporate Banking Group (the "**CBG**") and the Treasury Group offers both *Shari'ah*-compliant products and conventional products.

In 2006G, the corporate banking segment was reorganised to align NCB's operating segments with key customer segments. In addition, new dedicated units were formed for specialised lending and cash management.

In December 2006G, NCB formed Alahli Takaful Company P.J.S.C. ("**ATC"**), a listed company on the Tadawul which provides takaful insurance products and services in the Kingdom.

In 2007G, in order to comply with new regulations of the CMA, NCB established NCB Capital Company ("**NCBC"**) as a subsidiary and transferred its wealth management, asset management, brokerage and investment banking activities to it. As at 30 June 2014G, NCB had a 90.71% direct ownership interest in NCBC.

In March 2008G, NCB acquired a controlling interest of 60% in the Turkish participation bank Türkiye Finans Katılım Bankası ("**TFKB**"). This equity stake has since been increased by NCB to 66.27% through additional capital subscriptions (as at 30 June 2014G).

In August 2013G, NCB announced a new organisational structure for the Group, as a result of which (among other changes) two new groups were formed: the Retail Banking Group (the "**RBG**") and the Strategy & Business Development Group. The aim of the reorganisation was to facilitate the execution of NCB's strategy.

Principal Activities

The Group provides both conventional and *Shari'ah*-compliant banking services to its customers through its five principal operating segments which are: (i) the RBG, (ii) the CBG, (iii) the Treasury Group, (iv) Capital Markets (comprising the business of NCBC), and (v) International (comprising the business of TFKB and the Beirut branch). In addition to the services it provides to the public, NCB provides payroll services to some public sector employees.

Conventional products offered by NCB include (among others) deposits, term loans, trade financing, structured solutions, cash management, foreign exchange and money remittance. The primary Islamic structures used by NCB include *tawarruq*, *murabaha*, *ijara*, *istisna*, and *wakala*. These products are supervised by NCB's independent *Shari'ah* board (the "**Shari'ah Board"**).

The Group also manages part of its business through its material subsidiaries which are: (i) NCBC, which conducts wealth management, asset management, brokerage and investment banking activities, and (ii) TFKB, which is one of four "participation" (*Shari'ah*-compliant) banks in Turkey.

According to the published financial statements of all of the banks licensed to provide banking services in the Kingdom as at 30 June 2014G, NCB was the largest bank in the Kingdom in terms of customers' deposits (345.5 billion Saudi Riyals) and total assets (435.5 billion Saudi Riyals). For the six months ending 30 June 2014G, NCB was the largest bank in the Kingdom in terms of revenue of 8,079 million Saudi Riyals.

As at 30 June 2014G, NCB operated the second largest banking sector branch network in the Kingdom, with 329 branches. NCB also operates two overseas branches (in Lebanon and Bahrain), as well as three representative offices overseas (in Singapore, Seoul and Shanghai). NCB's domestic branch network is supported by one of the Kingdom's largest networks of Automated Teller Machines ("**ATMs**"), point of sale ("**POS"**) terminals and remittance centres with 2,387 ATMs, 19,580 POS terminals and 60 remittance centres as at 30 June 2014G.

As at 30 June 2014G, NCB employed 7,331 staff (94.12% of which were Saudi nationals), and in respect of its material subsidiaries, NCBC has 233 employees, while TFKB has 4,397 employees.

Capital Structure

NCB's current share capital is twenty billion (20,000,000,000) Saudi Riyals comprising two billion (2,000,000,000) shares with a nominal value of ten (10) Saudi Riyals each, all of which are nominal and fully paid up. The Subscription involves existing Shares only and there will be no change to the issued share capital of NCB as a result of the Subscription.

On 30/5/1435H (corresponding to 31 March 2014G), NCB's Extraordinary General Assembly approved the increase of NCB's Share capital from fifteen billion (15,000,000,000) Saudi Riyals to twenty billion (20,000,000,000) Saudi Riyals through the issuance of one bonus Share for each three Shares owned by current Shareholders as at 30/05/1435H (corresponding to 31 March 2014G), with fractional Shares being consolidated and sold to Shareholders. Article 6 of the Bylaws was amended accordingly. The increase in share capital was funded by transferring five billion (5,000,000,000) Saudi Riyals from retained earnings as of 31 December 2013G. As of 17 August 2014G, all fractional shares were aggregated (resulting in 69 Shares) and sold, with the proceeds of the sale distributed to Shareholders who owned fractional shares in an amount proportional to their ownership in NCB's share capital.

As at the date of this Prospectus, NCB's largest Shareholder is the Government, which holds (through PIF, GOSI and PPA) 79.33% of NCB's issued share capital.

On 16 September 2009G, NCB acquired from a customer as a result of a partial set-off of debt due to NCB from one of its customers (who owns a stake in NCB's Shares) four million twenty four thousand eight hundred and fifty two (4,024,852) of its own Shares (the "**Treasury Shares**"), representing 0.27% of NCB's issued Shares at the time of their acquisition, for a total amount of one hundred and seventy seven million, ninety three thousand, and four hundred and eighty eight (177,093,488) Saudi Riyals. Following the recent distribution by NCB of bonus Shares to its Shareholders as a result of the capital increase approved by the Extraordinary General Assembly on 30/05/1435H (corresponding to 31 March 2014G), the number of the Treasury Shares has increased and, as at the date of this Prospectus, NCB holds five million three hundred and sixty six thousand four hundred and sixty nine (5,366,469) Treasury Shares. NCB's holding of the Treasury Shares has been approved by the Saudi Arabian Ministry of Commerce and Industry ("**MOCI**") and SAMA subject to the condition that the Treasury Shares must be sold by NCB on the open market within one year from the date on which the Shares become publicly traded. NCB will make an announcement through Tadawul upon completing the sale of the Treasury Shares.

The table below sets out the details of NCB's Shareholders showing their respective ownership percentages in NCB's issued share capital as at the date of this Prospectus and after the Subscription:

Table 1 NCB's Shareholders and their respective ownership percentages in NCB's issued share capital as at the date of this Prospectus and after the Subscription

	Number of Shares*****		Percentage of Ownership******	
	Pre-Subscription	Post- Subscription	Pre- Subscription	Post- Subscription
PIF*	1,385,893,333	885,893,333	69.29%	44.29%
GOSI*	200,000,000	200,000,000	10.00%	10.00%
PPA**	874,765	200,874,765	0.04%	10.04%
Saudi individuals ***	376,774,382	676,774,382	18.84%	33.84%
Saudi companies and institutions****	36,457,520	36,457,520	1.82%	1.82%
Total	2,000,000,000	2,000,000,000	100.00%	100.00%

* Denotes Substantial Shareholders for the purpose of the Listing Rules.

** Two hundred million (200,000,000) of the Subscription Shares, representing 10% of NCB's share capital will be allocated for direct subscription by the PPA at the Subscription Price.

*** None of whom owns a share that equals 5% or more.

**** None of whom owns a share that equals 5% or more, and these Shares include the Treasury Shares.

***** These Shares include Qualification Shares.

****** Although the number of shares in the table above is accurate, rounding the percentage of ownership to two decimal places results in a total of 99.99%.

VISION, MISSION AND STRATEGY

Vision

NCB's vision is to become the premier financial services group in the region.

Mission

NCB's strategy to achieve this is based on five aspirations:

a) to be the number one bank by income;

b) to be the number one bank by profits;

c) to become the best bank in providing electronic services;

d) to become the best bank in customer services; and

e) to become the bank employer of choice.

Strategy

In furtherance of the above aspirations, NCB has identified the following key strategic initiatives:

a) New Operating Model: in line with its strategy to become the region's best bank in providing electronic services, NCB is investing heavily in new core banking systems to further modernise its technology platform and data centre and ensure reliable systems that have the ability to meet variable demand. Its aim is to improve customers' experience and channel productivity as well as to reduce overall IT and operational costs. NCB aims to attract younger customers who have a high usage of digital channels by providing an increasing number of products and services through digital channels.

b) Upgrading and Expansion: NCB plans to continue expanding its network of branches. NCB also plans to enhance the design and layout of its branches to improve efficiency and effectiveness of service to, and deepen its relationship with, all customer segments. NCB is also expanding the number of ATMs and remittance centres that it operates within the Kingdom, together with developing the provision of more services through eBanking, Mobile and ATMs. Through these initiatives, NCB aims to improve and facilitate its customers' transactions, gain their satisfaction of its services, while at the same time encouraging service-based transactions to be conducted through digital channels.

c) Broaden Market Penetration: NCB continues to seek opportunities to broaden its market penetration and increase its customer base. This is achieved through innovation and focussing on new markets such as increasing its presence in the small and medium-sized enterprises ("**SME"**) sector, supporting the Government's drive to develop SME businesses. NCB also plans to increase its penetration in under-served/ remote areas of the Kingdom. NCB is also seeking to expand in the real estate sector, responding to the Kingdom's new mortgage legislation. NCB will develop its support for real estate developers undertaking housing projects and enhancing its residential finance ("**RF**") offering for young Saudis who wish to purchase their own home.

d) Improve Cost Efficiency: NCB is focused on reducing its operating costs while increasing the productivity of its resources and processes by implementing effective expense management systems, with a particular focus on communication and information technology.

e) Innovation: NCB seeks to develop innovative new products and services to broaden its market penetration and target new customer segments as the financial services industry develops. NCB plans to continue to pursue an innovative approach to financial services in the markets in which it operates, for example in *Shari'ah*-compliant banking, in order to broaden its customer base and enhance the services available to its customers.

KEY STRENGTHS AND COMPETITIVE ADVANTAGES

There are several aspects to NCB's business and product offerings which, in the view of Senior Management, give NCB key competitive advantages in the markets in which it operates. These competitive strengths include:

a) Brand Equity: NCB is a pervasive and strong brand in the Kingdom, with a 60 year heritage of providing banking services to its customers. NCB has established a strong presence and a sound reputation in the commercial banking sector in the Kingdom, where it currently ranks as the largest bank in the Kingdom in terms of customers' deposits and total assets.

b) Broad distribution: NCB has the second largest banking sector branch network in the Kingdom (with 329 branches as at 30 June 2014G) and has strong alternative distribution channels ("**ADCs"**), such as ATMs, telephone and internet banking, mobile phone systems, smart phone and tablet Apps and SMS messaging, which enable it to service its existing customer base and attract new customers.

c) Comprehensive product offering: one of NCB's strengths is its ability to offer its customers a wide range of products and services across its operating segments. NCB's *Shari'ah* Group, in particular, has provided innovative Islamic products, including the world's first Islamic credit card and the world's first Islamic automobile leasing product.

d) Large, stable customer base: NCB has an existing customer base of over 2.9 million customers as at 30 June 2014G, which provides NCB with access to a large and stable deposit base with a variety of maturity and re-pricing profiles. NCB is able to exploit this strong customer base to cross-promote products and services through its subsidiaries, including NCBC, and through ATC.

e) Strong capitalisation and liquidity position: NCB's Tier 1 capital ratio and total capital ratio are strong, at 15.5% and 18.1%, respectively, as at 30 June 2014G. NCB's total capital adequacy ratio exceeds the minimum capital adequacy ratio imposed by SAMA and remains ahead of the Basel III regulatory requirements of 8% of risk-weighted assets. Furthermore, NCB benefits from a strong liquidity position, with a relatively low loan to deposit ratio of 59.7% as at 30 June 2014G (compared to 61.9% as at 30 June 2013G). The strength of its balance sheet and its robust capital and liquidity position give NCB operational and financial flexibility and enable it to strive towards optimising its return on equity.

f) Experienced management team: NCB has a strong management team with extensive knowledge of the banking sector in the Kingdom and the Middle East and North Africa ("**MENA**") region and significant experience in leading international financial institutions.

g) Government ownership: The Government, indirectly through PIF, GOSI and PPA owns 79.33% of NCB's shares as at the date of this Prospectus, and a significant proportion of NCB's deposits have been made by the Government and/or its departments or agencies. NCB's Senior Management believes that the Government's interests in NCB enhance NCB's reputation as a stable and secure institution with which to do business, for both retail depositors and corporate customers, as well as other counterparties.

OVERVIEW OF THE MARKET

There are, at present 23 commercial banks operating in the Kingdom, of which 12 are incorporated in the Kingdom ("**Saudi Banks**"), with the remaining 11 being branches of international banks. With the exception of NCB, all of the other Saudi Banks are publicly listed joint stock companies. According to the International Monetary Fund (the "**IMF**"), the assets of the Saudi Banks account for 98% of the total assets of the Kingdom's banking sector and more than half of the total assets of the Kingdom's financial services sector. The banking system outlook in the Kingdom is rated as "Stable" by Moody's.

Saudi Banks demonstrated improvement in both efficiency and asset quality during 2013G. Total assets grew by 9%, reaching 1.9 trillion Saudi Riyals, whereas net loans grew by 1%, reaching 1.1 trillion Saudi Riyals. The consolidated operating income and net income increased to 69.7 billion Saudi Riyals and 37.8 billion Saudi Riyals, respectively, recording a year on year growth rate of 7.2% and 7.1%, respectively.

In 2013G, NCB registered the highest operating income (14.8 billion Saudi Riyals), net income (7.9 billion Saudi Riyals), deposits (300.6 billion Saudi Riyals) and loans (187.7 billion Saudi Riyals) relative to all Saudi Banks. In 2013G, NCB's Return on Equity ("**ROE**") of 19.2% was the highest among Saudi Banks (excluding Al Rajhi Bank). The average ROE of all Saudi Banks was 13.4%. NCB's Loan to Deposit ratio ("**LDR**") (62.4% in 2013G) is the lowest amongst the Saudi Banks (average LDR for all Saudi Banks was 77.4%), which indicates significant room for future growth.

Despite strong growth in credit and deposits, the Kingdom's banking sector remains remarkably underpenetrated. In terms of loans as a percentage of the Kingdom's gross domestic product ("**GDP**"), the Kingdom ranks lowest among the GCC countries. The loan to GDP ratio of the Kingdom was 40.5% in 2013G compared with the average loan to GDP ratio of 64.3% for the GCC countries (excluding the Kingdom). Saudi Banks' LDR was low compared to regional peers in 2013G. The average LDR for GCC countries (excluding the Kingdom) was 85.8% compared with a LDR of 77.4% for Saudi Banks. These factors indicate significant growth potential for banking services in the Kingdom going forward.

SUMMARY OF FINANCIAL INFORMATION

The following summary of historical financial information as at and for the years ended 31 December 2011G, 2012G and 2013G and as at and for the six month period ended 30 June 2014G has been derived:

- in the case of the historical financial information as at and for the six month periods ended 30 June 2014G and 30 June 2013G, from the 30 June 2014G Financial Statements;
- in the case of the historical financial information as at and for the year ended 31 December 2013G, from the 2013G Financial Statements;
- in the case of the historical financial information as at and for the year ended 31 December 2012G, from the 2012G Financial Statements; and
- in the case of the historical financial information as at and for the year ended 31 December 2011G, from the 2011G Financial Statements,

each of which is included elsewhere in this Prospectus. The Financial Statements have been prepared in conformity with accounting standards for financial institutions promulgated by SAMA and with IFRS.

Prospective Subscribers should read the following summary financial information section in conjunction with the information contained in section 2 - "*Risk Factors*", section 4 - "*Business Description*" and the Financial Statements, and section 6- "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

STATEMENT OF INCOME DATA

The following table shows the Company's income statement data for the years ended 31 December 2011G, 2012G and 2013G and for the six month periods ended 30 June 2014G and 2013G, respectively:

Table 2 The Company's income statement data for the years ended 31 December 2011G, 2012G and 2013G and for the six month periods ended 30 June 2013G and 2014G

SAR in millions	2011G	2012G	2013G	Six months ended 30 June 2014G	Six months ended 30 June 2013G
Special commission income	10,185	11,096	11,726	6,567	5,944
Special commission expense	(1,604)	(2,137)	(1,713)	(1,067)	(865)
Net special commission income	8,581	8,959	10,013	5,500	5,079
Fee income from banking services, net	2,482	2,960	3,019	1,715	1,652
Exchange income, net	474	547	687	361	325
Income from FVIS investments, net	(87)	116	119	61	62
Trading income, net	147	81	101	51	53

SAR in millions	2011G	2012G	2013G	Six months ended 30 June 2014G	Six months ended 30 June 2013G
Dividend income	66	99	90	88	62
Gains on non-trading investments, net	325	602	646	341	527
Other operating income, net	144	145	190	(38)	6
Total operating income	12,132	13,509	14,865	8,079	7,766
Salaries and employee-related expenses	2,480	2,595	3,005	1,584	1,528
Rent and premises-related expenses	449	501	574	315	305
Depreciation of property and equipment	352	414	478	245	232
Amortisation of intangible assets	198	189	189	95	95
Other general and administrative expenses	1,260	1,526	1,555	736	702
Impairment charge for credit losses, net	1,033	1,436	795	114	416
Impairment charge on investments, net	22	-	40	98	22
Total operating expenses	5,794	6,661	6,636	3,187	3,300
Net Operating Income	6,338	6,848	8,229	4,893	4,466
Other income/(expenses)					
Social responsibility projects	(54)	(58)	(53)	(3)	(28)
Other operating income/ (expenses), net	(179)	(176)	(184)	144	(33)
Net other income/(expenses)	(233)	(234)	(237)	141	(61)
Net income for the period	6,105	6,614	7,992	5,034	4,405
Net income for the period to:					
Shareholders	6,012	3,453	8,52	4,961	4,324
Minority Shareholders	94	160	137	73	81
Income per share (Saudi Riyals)*	4.02	4.31	5.25	2.49	2.17

*Income per share for each of the fiscal years ended 31 December 2011G, 2012G and 2013G was calculated based on 1,495,975,148 shares, which is the number of shares before the capital increase, amounting to 1,500,000,000 shares, less the Treasury Shares outstanding at the time (and in accordance with the Company's financial statements).Income per share as at 30 June 2014G and 30 June 2013G was calculated based on 1,994,633,531 shares, which is the number of outstanding shares after the capital increase, amounting to 2,000,000,000 shares less the Treasury Shares outstanding as at 30 June 30, 2014.

BALANCE SHEET DATA

The following table shows the Company's balance sheet data as at 31 December 2011G, 2012G and 2013G and 30 June 2014G and 2013G, respectively:

Table 3 The Company's balance sheet data as at 31 December 2011G, 2012G and 2013G and 30 June 2014G and 2013G

SAR in millions	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	30 June 2014G Audited	30 June 2013G Unaudited
Cash and balances with SAMA	24,702	40,298	39,090	32,081	31,417
Due from banks and financial institution	11,561	16,402	14,831	20,919	12,715
Investment securities	120,489	116,428	125,294	163,635	129,358
Loans and advances	135,289	163,461	187,687	206,195	178,208
Investment in associates	839	833	829	408	831
Other real estate	249	219	216	861	216
Property and equipment	2,317	2,550	2,762	3,438	2,484
Goodwill and other intangibles	1,231	1,172	873	818	1,023
Other assets	4,521	3,897	5,698	7,175	6,544
Total assets	301,198	345,260	377,280	435,530	362,796
Due to banks and financial institutions	19,940	25,574	24,725	26,198	24,249
Customers' deposits	239,458	273,530	300,602	345,597	288,045
Debts securities issued	0	0	1,511	9,502	1,511
Other liabilities	6,215	6,751	7,906	7,878	7,369
Total liabilities	265,613	305,856	334,744	389,176	321,174
Share capital	15,000	15,000	15,000	20,000	15,000
Treasury shares	(177)	(177)	(177)	(191)	(177)
Statutory reserve	12,105	13,624	15,103	15,103	13,624
Other reserves	1,918	1,857	1,354	1,712	1,482
Retained earnings	5,227	7,051	9,699	7,976	11,382
Proposed dividend	1,496	1,496	1,646	1,596	-
Foreign currency translation reserve	(1,404)	(1,148)	(1,691)	(1,589)	(1,399)
Total Shareholders' equity for shareholders	35,585	39,404	42,536	46,354	39,912
Non-controlling interest	1,420	1,701	1,602	1,747	1,710
Shareholders' equity	35,585	39,404	42,536	46,354	41,622
Total liabilities and shareholders' equity	301,198	345,260	377,280	435,530	362,796

STATEMENT OF CASH FLOWS DATA

The following table shows the Company's statement of cash flows data for the years ended 31 December 2011G, 2012G and 2013G and for the six month periods ended 30 June 2014G and 2013G, respectively:

Table 4 The Company's statement of cash flows data for the years ended 31 December 2011G, 2012G and 2013G and for the six month periods ended 30 June 2014G and 2013G

SAR in millions	2011G	2012G	2013G	Six months ended 30 June 2014G	Six months ended 30 June 2013G
Net income for the year	6,106	6,613	7,989	5,034	4,405
Adjustments for non-cash items	1,279	1,469	1,053	(151)	330
Due from banks and SAMA	(3,394)	(3,065)	(4,714)	(8,502)	(5,993)
Loans and advances to customers	(10,726)	(28,609)	(29,681)	(18,806)	(17,247)
Due to banks and financial institutions	5,608	5,451	93	1,468	(892)
Customer Deposits	10,297	32,884	30,833	44,980	16,247
Others assets and liabilities	(659)	1,040	(1,026)	(1,356)	(1,851)
Investments held for Trading and FVIS	1,417	920	(47)	(150)	88
Change in operating assets and liabilities	2,544	8,622	(4,541)	17,634	(9,648)
Net cash from operating activities	9,929	16,704	4,500	22,517	(4,912)
Capital expenditures	(613)	(631)	(713)	(906)	(176)
Purchase to non-trading/ FVIS investments	(131,074)	(72,545)	(75,720)	(77,115)	(58,646)
Proceeds from sale of non-trading/ non-FVIS investments	118,256	76,232	66,561	39,752	45,546
Net cash from investing activities	(13,430)	3,057	(9,872)	(38,269)	(13,275)
Dividends payments	(2,693)	(2,693)	(2,693)	(1,646)	(1,496)
Debt securities issued	-	0	1,511	7,989	1,511
Net movement in non-controlling interests	(2)	97	57	(14)	(389)
Net cash from financing activities	(2,695)	(2,596)	(1,126)	6,329	(374)
Net cash flows	(6,196)	17,165	(6,498)	(9,423)	(18,562)
Beginning "period" cash and cash equivalents	27,625	20,716	38,088	30,593	38,088
Foreign Currency Reserve- net movement in cash and cash equivalents	(713)	207	(999)	6	(460)
Ending "period" cash and cash equivalents	20,716	38,088	30,593	21,172	19,526

KEY PERFORMANCE INDICATORS

The following table shows the Company's key performance indicators as at, and for the years ended 31 December 2011G, 2012G and 2013G and for the six month periods ended 30 June 2014G and 2013G, respectively:

Table 5 The Company's key performance indicators as at, and for the years ended 31 December 2011G, 2012G and 2013G and for the six month periods ended 30 June 2014G and 2013G

	2011G	2012G	2013G	Six months ended 30 June 2014G	Six months ended 30 June 2013G
Share profits**	3.01	3.24	3.94	2.49	2.17
Return on assets	2.06%	2.00%	2.17%	2.48%	2.49%
Return on equity	17.6%	17.1%	19.2%	22.2%	21.7%
Net special commission income	3.3%	3.2%	3.2%	3.1%	3.3%
Special commission expenses to average deposits and debt securities issued	0.64%	0.77%	0.55%	0.60%	0.56%
Tier 1 capital ratio	17.19%	16.46%	16.21%	15.50%	16.50%
Capital adequacy ratio	18.20%	17.52%	17.13%	18.12%	17.55%
Investments to total assets	40.0%	33.7%	33.2%	37.6%	35.7%
Loan to deposit ratio	56.5%	59.8%	62.4%	59.7%	61.9%
Ratio of provisions for credit losses to total loans	4.26%	4.14%	2.52%	2.43%	3.14%
Ratio of non-performing loans and advances to total loans and advances	3.02%	2.90%	1.52%	1.36%	1.96%
Non-performing loans and advances	4,271	4,949	2,919	2,876	3,590

**For consistent comparison purposes, share profits were re-calculated for each of the fiscal years ended 31 December 2011G, 2012G and 2013G in the same manner as the share profits for the periods ended 30 June 2014G and 30 June 2013G. Namely, using 1,994,633,531 shares, which is the number of shares outstanding as at 30 June 2014G, calculated as the number of shares after the capital increase, (2,000,000,000) less the Treasury Shares outstanding as at 30 June 30, 2014.

SUMMARY OF RISK FACTORS

Before deciding to subscribe for the Retail Allocation, prospective Subscribers are advised to carefully consider all of the information contained in this Prospectus, particularly the risks described below, which are addressed in detail in the section 2 - "*Risk Factors*".

Risks Relating to the Business of the Group

- Risks Relating to Growth Strategy.
- Credit Risks.
- Risks Relating to Loans to Individuals and SMEs.
- Market Risks.
- Liquidity Risks.
- Geographic Concentration Risks.
- Risks Relating to Loan and Deposit Concentration with a Limited Number of Clients.
- Risks Relating to the Concentration of Facilities in the Construction Sector.
- Risks Relating to the Concentration of Investments and Loans in a Limited Numbers of Currencies.

- Risks Relating to the Collateral Securing Loans and Advances.
- Risks Relating to Project Finance.
- Risks Relating to Leverage and Capital Raising.
- Risks Relating to the Occurrence of an Asset-Liability Maturity Gap.
- Risks Relating to Credit Ratings.
- Risks Relating to Proprietary Trading Activities.
- Risks Relating to the Debt Portfolio.
- Risks Relating to the Group's Reputation.
- Risks Relating to Risk Management Policies.
- Risks Relating to Information Technology Systems.
- Legal Risks.
- Operational Risks.
- Risks Relating to Insurance Coverage.
- Risks Relating to Employees.
- Risks Relating to Litigation Proceeding.
- Risks Relating to Zakat Liability.
- Risks Relating to the Tax Laws Applicable to TFKB.
- Risks Relating to Additional Financial Support.
- Risks Relating to the Interpretation of Shari'ah Principles.
- Risks Relating to Management's Lack of experience in Managing a Publicly Listed Company.
- Risks Related to Intellectual Property.
- Risks Related to the Treasury Shares.

Risks Relating to the Political/Regulatory Environment in the Kingdom and Generally

- Risks Relating to Competition.
- Risks Relating to Political and Security Concerns.
- Risks Related to Legal Reforms.
- Economic Risks.
- Risks Related to the Global Economy.
- Risks Relating to the De-pegging of the Saudi Riyal from the U.S. Dollar or Re-Pegging at a Different Rate.
- Risks Relating to a Monetary Union between GCC Countries.
- Risks Relating to Future Development of the Kingdom's Banking Sector.
- Risks Relating to Licensing.
- Risks Relating to the Group's Compliance with Applicable Laws.
- Risks Related to Saudisation and Labour Force Regulation.
- Risks Relating to Anti-money Laundering and Anti-terrorism regulations.
- Risks Related to Capital Adequacy.

Risks Relating to the Subscription Shares

- NCB is controlled by certain principal Shareholders whose interests may not be aligned with the interests of the minority.
- Absence of prior market for the Shares.
- Future sales and offers.
- Liquidity and fluctuations in the prices of the Subscription Shares.
- Distribution of dividends.

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1. TERMS AND DEFINITIONS

1988G Vienna Convention	1988G United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.
2011G Financial Statements	The Company's audited financial statements as at and for the year ended 31 December 2011G.
2012G Financial Statements	The Company's audited financial statements as at and for the year ended 31 December 2012G.
2013G Financial Statements	The Company's audited financial statements as at and for the year ended 31 December 2013G.
30 June 2014G Financial Statements	The Company's audited financial statements as at and for the six month period ended 30 June 2014G.
A+ (Fitch)	A credit rating from Fitch which denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings with the modifier "+" denoting relative status within the category.
A+ (Standard & Poor's)	A credit rating from S&P to describe obligations that are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. The obligor's capacity to meet its financial commitment on the obligation is still strong with the modifier "+" denoting relative status within the category.
A1	A credit rating from Moody's to describe obligations that are judged by Moody's to be upper-medium grade and are subject to low credit risk with the modifier "1" indicating a ranking in the higher end of that generic rating category.
AA-	A credit rating from Capital Intelligence to describe the inherent financial strength of a bank, being financially in very strong condition and with significant strengths in other non-financial areas and with an operating environment likely to be very attractive and stable. "-" indicates that the strength of a particular institution is, respectively, slightly less than that of similarly rated peers.
Account Opening Rules	The updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BCI/60: dated 8 April, 2003G) issued by SAMA in April 2013G.
ADC	Alternative Distribution Channel.
Admission	Admission of the Shares to the Official List and approval for the trading of the Subscription Shares on the Tadawul.
Affluent Banking Customers	Customers with personal financial assets of between 100,000 Saudi Riyals and 5,000,000 Saudi Riyals.
AL	Auto lease.
ALCO	The Company's Asset and Liability Committee.
ALM	Asset and Liability Management.
Anti-Money Laundering Law	The Anti-Money Laundering Law established pursuant to Royal Decree No. M/39 dated 25/6/1424H (corresponding to 22 August 2003G) and its implementing regulations and updated by Royal Decree No. M/31 dated 11/05/1433H (corresponding to 3 April 2012G).
App	Software application.
ATC	Alahli Takaful Company P.J.S.C..
ATM	Automated teller machines.

Audit Committee	The audit committee of the Company.
Auditors	Ernst & Young and KPMG Al Fozan & Al Sadhan.
Authorised Persons	A person authorised by the CMA.
Authority or CMA	The Capital Market Authority of the Kingdom.
Banking Control Law or BCL	The Banking Control Law issued by Royal Decree No. M/5 dated 22/2/1386H (corresponding to 12 June 1966G).
Banking Licenses	The banking licences bearing the stamp of the Governor of SAMA held by each of NCB's branches in the Kingdom.
Basel Committee	The Basel Committee on Banking Supervision, a committee established in 1974G by the central bank governors of the G-10 (Group of Ten) countries.
Basel II	The second of the Basel Accords, issued by the Basel Committee in 2004G.
Basel III Framework	The capital framework implemented by the third of the Basel Accords, agreed by the members of the Basel Committee in 2010G.
BCBS	The Basel Committee on Banking Supervision.
Board Member or Director	A member of the Board.
Board or Board of Directors	The Board of Directors of the Company.
Bylaws	The Company's Bylaws.
CAGR	Compounded Annual Growth Rate.
CAR	Capital adequacy ratio.
CBG	The Corporate Banking Group of the Company.
CC	NCB's Compliance Committee.
CDSI	Central Department of Statistics and Information.
CEO	Chief Executive Officer.
Closing Date	Sunday 9/1/1436H (corresponding to 2 November 2014G).
CML	The Capital Market Law, promulgated by Royal Decree No M/30 dated 2/6/1424H (corresponding to 31 July 2003G).
Companies Regulations	Regulations for Companies promulgated under Royal Decree No. M/6 dated 22/3/1385H (corresponding to 20 July 1965G), as amended.
Company or NCB	The National Commercial Bank, a company formed as a joint stock company pursuant to Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G), with commercial registration number 4030001588 dated 26/12/1376H (corresponding to 24 July 1957G).
Company's Advisers	The Financial Advisers, the Lead Managers and the Company's other advisers (whose names appear in the "Parties and Advisers" section of this Prospectus).

Corporate Governance Regulations	The Corporate Governance Regulations applicable in the Kingdom and issued by CMA Resolution No. 1/212/2006 dated 21/10/1427H (corresponding to 12 November 2006G), amended by way of the CMA Board Resolution No. 1-10-2010 dated 30/3/1431H (corresponding to 16/3/2010G).
CRMC	The Company's Credit and Remedial Management Committee.
Directors	The directors of the Company.
DPM	Discretionary portfolio management.
DZIT	Department of Zakat and Income Tax.
Eastgate	Eastgate Capital Holdings Inc.
ECA	Export Credit Agency.
EU	The European Union.
Exchange or Tadawul	The Saudi stock exchange operating the electronic system for trading in listed securities in the Kingdom.
Executive Committee	The Company's executive committee.
Extraordinary General Assembly	An extraordinary General Assembly.
FATF	Financial Action Task Force on Money Laundering.
FI	Financial Institutions.
FID	Financial Institutions Division.
Finance Lease Law	The legislation in relation to the finance industry including lease financing issued by the Saudi Council of Ministers in August 2012G.
Financial Advisers	GIB Capital L.L.C. and HSBC Saudi Arabia Limited.
Financial Statements	The 30 June 2014G Financial Statements, the 2013G Financial Statements, the 2012G Financial Statements and the 2011G Financial Statements.
Fitch	Fitch Ratings, a global rating agency.
Foreign Investors	Non-Saudi nationals living outside the Kingdom and institutions registered outside the Kingdom.
FVIS	Fair Value through Income Statement.
GCC	Cooperation Council for the Arab States of the Gulf (often referred to more informally as the Gulf Cooperation Council). The member states of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
GDP	Gross domestic product.
General Assembly	A general meeting of the Shareholders of the Company.
GIB	Gulf International Bank.
GIB Capital	GIB Capital L.L.C.
GOSI	General Organisation for Social Insurance.

Government	The Government of the Kingdom.
Group	NCB and its subsidiaries.
HMC	The Company's Higher Management Committee.
IASB	International Accounting Standards Board.
IBD	Institutional Banking Division.
ICAAP	The Internal Capital Adequacy Assessment Process conducted by SAMA.
IFRS	International Financial Reporting Standards issued by the IASB.
IIFTC	International Islamic Trade Finance Corporation.
IMF	The International Monetary Fund.
Internal Audit Division	The independent internal audit division of the Company.
IT	Information Technology relating to support or management of computer-based information systems.
Kingdom	The Kingdom of Saudi Arabia.
KYC	Know-your-customer.
Law of Supervision of Finance Companies	The legislation in relation to the finance industry including supervision of financial companies issued by the Saudi Council of Ministers in August 2012G.
LC	Letters of credit.
LDR	Loan to deposit ratio.
Lead Managers	GIB Capital L.L.C. and HSBC Saudi Arabia Limited.
LG	Letters of guarantee.
Listing Rules	The Listing Rules issued by the CMA pursuant to Resolution No. 3-11-2004 dated 20/8/1425H (corresponding to 4 October 2004G) and amended by CMA Resolution No. 1-36-2012 dated 11/8/1434H (corresponding to 25 November 2012G).
Mbpd	Million barrels per day.
MD&A	Management Discussion and Analysis.
ME	Middle Enterprises.
MENA	Middle East and North Africa.
MOCI	The Saudi Arabian Ministry of Commerce and Industry.
MOF	The Ministry of Finance.
Moody's	Moody's Investor Services, a provider of financial market intelligence.
NCBC	NCB Capital Company.
NIB	Non-interest bearing deposit.

NIM	Net interest margin.
Nominal Value	Ten (10) Saudi Riyals per Share.
NPLs	Non-performing loans.
OECD	Organisation for Economic Cooperation and Development.
Official List	The list of securities maintained by the CMA in accordance with the Listing Rules.
ORC	The Company's Operational Risk Committee.
Personal Banking Customers	Customers with personal financial assets of less than 100,000 Saudi Riyals.
PIF	Public Investment Fund.
PF	Personal finance.
POS	Point of sale.
PPA	Public Pension Agency.
PPA Allocation	Two hundred million (200,000,000) of the Subscription Shares, representing 10% of NCB's share capital to be allocated for direct subscription by the PPA at the Subscription Price.
Prime Subscriber	The head of family applying for himself and members appearing on his family identification card (if dependent).
Principles	The Banking Consumer Protection Principles issued in June 2013G by SAMA.
Private Banking Customers	Customers with personal financial assets greater than 5,000,000 Saudi Riyals.
Prospectus	This document.
Qualification Shares	The shares required to be held by a Director under article 68 of the Companies Regulations and in accordance with the Bylaws.
RBG	Retail Banking Group.
Real Estate Finance Law	The legislation in relation to the finance industry including real estate financing issued by the Saudi Council of Ministers in August 2012G.
Receiving Agents	Arab National Bank, Banque Saudi Fransi, Riyad Bank, Samba Financial Group, Saudi Hollandi Bank, The National Commercial Bank, The Saudi British Bank and The Saudi Investment Bank.
REDCO	The Real Estate Development Company.
REDF	Real Estate Development Fund.
Relatives	The husband, wife and first degree relatives such as the parents and children.
Retail Allocation	Three hundred million (300,000,000) of the Subscription Shares representing 15% of NCB's share capital, allocated for subscription by Saudi individuals only, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood. A subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant.

RF	Residential finance.
RMU	Remedial Management Unit.
ROE	Return on equity.
S&P	Standard & Poor's, a provider of financial market intelligence.
SAICO	Saudi Arabian Insurance Co.
SAMA	The Saudi Arabian Monetary Agency.
Saudi Banks	The 23 commercial banks operating in the Kingdom, of which 12 are incorporated in the Kingdom.
Saudi National	An individual holding Saudi Arabian nationality.
Saudi Riyal, Riyal or SAR	Saudi Riyal, being the lawful currency of the Kingdom.
Saudisation	Employment regulations of the Kingdom, which compel companies operating in the Kingdom to employ a specific percentage of Saudi nationals.
SE	Small Enterprises.
Selling Shareholder	PIF.
Senior Management	The team of executive officers of the Company as set out in section 5-5 "Directors, Senior Executives and Corporate Governance – Senior Management".
SEP	The Saudi Export Programme.
SFD	Specialised Finance Division.
SGDB	Saudi Government Development Bonds.
Shareholders	The holders of Shares; and "Shareholding" shall be construed accordingly.
Shares	The ordinary shares with a nominal value of ten (10) Saudi Riyals each in the share capital of the Company.
Shari'ah Board	The independent Shari'ah board of the Company.
SIDF	Saudi Industrial Development Fund.
SIMAH	The Saudi Credit Bureau.
SME	Small and medium size enterprises.
Social Insurance Law	The Social Insurance Law (Royal Decree No. M/22 dated 6/09/1389H (corresponding to 15 November 1969G), as amended).
Subscriber	A Saudi National who subscribes for the Retail Allocation, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood.
Subscription	The subscription for five hundred million (500,000,000) Shares representing 25% of the issued share capital of the Company at the Subscription Price.

Subscription Application Form	The subscription application form accompanying this Prospectus to be filled out and submitted by the Subscribers to the Receiving Agents expressing their desire to subscribe to the Retail Allocation.
Subscription Period	The period starting from Sunday 25/12/1435H (corresponding to 19 October 2014G) and lasting for 14 days up to and including the last day for closing the Subscription, ending on Sunday 9/1/1436H (corresponding to 2 November 2014G).
Subscription Price	Forty Five (45) Saudi Riyals per Subscription Share pursuant to the Subscription.
Subscription Shares	Five hundred million (500,000,000) Shares to be offered pursuant to the terms of the Subscription, comprised of the Retail Allocation and the PPA Allocation.
Substantial Shareholder	A person holding 5% or more of NCB's issued share capital as at the date of this Prospectus.
Tawuniya	The Company for Cooperative Insurance.
TFKB	Türkiye Finans Katılım Bankası A.Ş.
TFKB Management	The senior management of TFKB.
TL or Turkish Lira	The lawful currency of The Republic of Turkey.
Treasury Shares	The 5,366,469 (five million three hundred and sixty six thousand four hundred and sixty nine) Shares held by NCB.
TUCI	The Trade Union Cooperative Insurance Company.
Turkey	The Republic of Turkey.
U.S.$ or U.S. Dollars	United States Dollars, being the lawful currency of the United States of America.
UHNWI	Ultra High Net Worth Individuals.
UNSC 1373	The International Convention for the Suppression of the Financing of Terrorism.
US or United States	The United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

2. RISK FACTORS

Prospective investors should carefully consider all the information contained in this Prospectus, including the risks described below, prior to deciding to purchase the Retail Allocation. The risks outlined below may not include all the risks which the Company may face. The Company may face further risks which are currently unknown to it and which may affect its operations. However, the Board of Directors is currently unaware of any other material risks which may adversely affect the Company's activity and financial performance, except for the risks outlined below as of the date of this Prospectus. The Company's Board of Directors affirms that according to their knowledge and belief, there are no other material risks, besides those mentioned in this section, the exclusion of which may affect the investors' decision as of the date of this Prospectus.

The Company's activity, and the contents of this Prospectus, financial circumstances, future projections, results of operations and cash flows may be affected negatively and materially if any of the following risks, which the Company's management currently consider to be material, occur or if any other risks, which the Board did not specify or currently classify as being non-material, actually occur and materialize.

Investment in the Shares is only appropriate for those investors who are able to evaluate the risks and the benefits of the investment and those who have sufficient resources to sustain any loss resulting from such investment. Any prospective investor who is doubtful about any process must seek advice from a licensed financial advisor who will offer advice in relation to the purchase of the Shares and any other securities.

In the event that any of the risk factors which the Company's management currently believes to be significant, or any other risks which the management has not identified or those which it does not consider to be material at present, do materialize, the Group's profit as well as the price of the Company's Shares in the market may decrease and the investor may lose his total investment in the Shares or a part of such investment.

The risks outlined below are not presented in a way which reflects the extent of their significance. The additional risks, including those which are currently unknown or those which are not considered to be material at present, may have the effects set out above.

2 – 1 Risks Relating to the Business of the Group

2 – 1 – 1 Risks Relating to Growth Strategy

There can be no assurance that NCB's overall strategy and expansion plans will be commercially successful for NCB, or that NCB will be successful in implementing all aspects of such strategy and expansion plans without exposing NCB to undue risk. The ability to achieve that depends to a great extent on the performance of the Kingdom's economy, particularly the prevalent market price of oil, among other things. Unexpected events related to both internal and external factors may occur which would impair NCB's ability to successfully implement any or a material part of its strategy or expansion plans. Such events may damage NCB's commercial success and have a material adverse effect on NCB's business, financial condition, results of operations or prospects.

The management of the Group's growth will therefore require, amongst other things, continued development of the Group's financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If the Group fails to manage its growth properly, such failure would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

2 – 1 – 2 Credit Risks

Credit risk is the risk that a customer or counterparty of the Group is unable to meet its obligations in accordance with the relevant agreed terms (and that any collateral securing those obligations is insufficient) and, depending on the amount involved, will cause the Group to incur a financial loss.

Credit risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from customers and counterparties are inherent in a wide range of the Group's businesses, principally in its lending and investment activities. Credit risks could also increase as a result of a general deterioration in local or global economic conditions, or from systemic risks within the financial system, each of which could affect the recoverability and value of the Group's assets and require an increase in the Group's provisions for the impairment of loans, securities and other credit exposures. Moreover, NCB is continuously changing the nature of its investments based on the economic climate and the condition of financial markets, leading to fluctuations in the bank's exposure to risks related to such investments.

Further, concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or industry activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. See the concentration risks described in section 2-1-6 "*Risk Factors – Geographic Concentration Risks*".

NCB makes collective provisions to cover bad and doubtful debts and impaired investments and the Group's portfolio and credit exposures are managed in accordance with the relevant credit policy and customer lending classifications set by SAMA. NCB's allowance for losses on loans is based on, among other things, its analysis of current and historical delinquency rates and loan management and the valuation of the underlying assets, as well as numerous other management assumptions. These analyses and assumptions may nonetheless give rise to inaccurate predictions of credit performance in the current economic environment which in turn would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

NCB experienced an increase in credit losses and provisions as a result of customer defaults during the recent global financial crisis, the majority of those losses were inside the Kingdom. If the Group experiences further customer defaults and its provisions prove to be inadequate for any reason, including, without limitation, because of an economic downturn or a failure of its credit disciplines, this could have an adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group's failure to maintain the credit quality of its loan assets through effective risk management policies while maintaining growth in its loan portfolio would lead to higher loan loss provisioning and higher levels of defaults and write-offs which, in turn, would have an adverse effect on the Group's business, financial condition, results of operations or prospects.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, the Group may rely on information furnished to it by or on behalf of customers and counterparties, including financial statements and other financial information. The Group may also rely on certain representations as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. In circumstances where the Group is supplied with information as to the credit condition of its borrowers which is inaccurate, materially misleading or incomplete, this may have an impact on the ability of the Group to effectively manage its credit risk, which in turn would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

2 - 1 - 3 Risks Relating to Loans to Individuals and SMEs

NCB's strategy of diversifying its customer base carries certain risks. Amongst other things, increased lending to retail customers and SMEs may lead to an increase in write-downs and provisions for bad and doubtful debts. NCB can have limited specific historical customer experience with such counterparties, which themselves can have limited credit histories. Unexpected results in the loan portfolios of these asset types can have a negative impact on NCB's revenues and profit, as well as potentially lead to litigation and associated costs related to NCB taking action to recover NPLs and other overdue amounts from counterparties. Growth in lending to counterparties such as these types will therefore require regular monitoring by management of portfolio credit quality (see section 4-7 "*Company Description and Nature of Business – Risk Governance Framework*").

NCB has continued to increase its dealing with retail customers, which may lead to an increase in its exposure to credit risk. There is no assurance that the increased default risk related to retail customers will be offset by (1) a higher return to NCB from such transactions; (2) any benefit from increased counterparty and credit product diversification (such as personal finance ("**PF**"), auto loans, credit cards, and real estate financing), or (c) obtaining higher collateralisation ratios in relation to loans as compared to corporate lending.

In addition, it is expected that SAMA will put in place a maximum loan-to-value ratio in relation to real estate finance of 70%, and such limitation may have an adverse effect on the NCB's business, financial condition, results of operations or prospects.

The increase of real estate financings in NCB's loan portfolio exposes NCB to addition risks discussed below, which may have an adverse effect on NCB's business, financial condition, results of operations or prospects. Such risks include the following: (1) NCB's ability to recover on its debts through enforcement against and foreclosure of related property is largely untested; (2) certain real estate financing loans are subject to special commission rates that are fixed or only adjustable to a limited extent, and therefore profit margins may fall in the event of a sustained increase in interest rates, and (3) given that real estate financing loans have long maturities, that makes such loans more susceptible to default in the event of a decrease in the value of related property below the outstanding principal amount.

2 – 1 – 4 Market Risks

Market risk is defined as the potential loss in value of financial instruments or a company's on or off-balance sheet positions arising from adverse movements in market variables such as commission or other profit rates, foreign exchange rates and the costs of debt, equity and commodity investments. The Group's financial condition and results of operations could be adversely and materially affected by market risks that are outside its control including, without limitation, volatility in one or more of these macroeconomic factors.

Changes in special commission income levels, interest, spreads and maturity mismatches may affect the margin realised between NCB's lending and investment activities and its borrowing costs, and the values of assets and investments that are sensitive to special commission income and spread changes. The principal risk in relation to special commission income arises from the possibility that changes in special commission income will result in a mismatch or gap in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. An increase in special commission income generally may decrease the value of NCB's fixed rate loans, raise NCB's funding costs and decrease the value of fixed rate debt securities in NCB's securities portfolio. Volatility in special commission income may result in a re-pricing gap between NCB's special commission-income sensitive assets and liabilities and will adversely affect NCB's net special commission income.

The persistence of special commission rates at prevailing low levels may curtail NCB's ability to sustain growth in net commission income and earnings. There is no guarantee that NCB can sustain growth in its net commission income through high growth in the volume of loans to customers which offsets the fall in yields resulting from lower special commission rates. However, in the event that the rate of growth in volume of customer loans slows down, and special commission rates remain at current levels or erode further, this would result in losses that could have an adverse effect on NCB's business, financial condition, results of operations or prospects.

Changes in the prices of debt, equities, commodities and other securities may also affect the values of NCB's investment and trading portfolios. It is difficult to accurately predict changes in economic and market conditions and to anticipate the effects that such changes could have on NCB's financial condition and result of operations.

The Group's principal operating currency is the Saudi Riyal. However, the Group has assets, liabilities in foreign currencies, and engages in transactions, denominated in a number of other currencies, including the Turkish Lira and the U.S. Dollar, and other currencies of jurisdictions in which the Group maintains a presence or has a customer base or foreign currency loan exposure. To the extent that the Group has assets denominated in one currency and liabilities or obligations denominated in another, there exists a risk that a movement, on the international foreign exchange markets, in the relative value of one currency against the other, will have the effect of decreasing the value of the Group's assets and increasing the value of its liabilities and cost of its obligations when translated into the relevant currency. In addition, the operations of TFKB are reported in Turkish Lira and, when consolidated with the financial statements of NCB, are translated from Turkish Lira into Saudi Riyals. A material devaluation of the Turkish Lira against the Saudi Riyal would impact the results of operations of TFKB and the value of NCB's investment in TFKB and subsequently have an impact on the consolidated financial statements of the Group. As at 30 June 2014G, 80.7% of NCB's outstanding loan portfolio and 91.1% of its deposits were denominated in Saudi Riyals. Significant movements in currency exchange rates may adversely affect NCB's foreign currency positions.

There can be no assurance that the Group will be able to protect itself from any adverse effects of future volatility in commission or other profit rates, or currency exchange rates, which may have a material adverse effect on its business, financial condition, results of operations or prospects.

2 - 1 - 5 Liquidity Risks

The Group is exposed to liquidity risk due to the maturity mismatches between its assets and liabilities. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. See section 2-1-13 "*Risk Factors– Risks Related to the Occurrence of an Asset-Liability Maturity Gap*".

If the Group's liquidity risk management policies do not have the desired effect or fail, and such failure lead to the Group becoming unable to fund its asset base, it would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

The Group is subject to the risk of actual or perceived deterioration of the commercial and financial soundness of other financial services institutions sometimes as a result of potential constraints on liquidity or a higher cost of funds in the interbank lending market. Within the financial services industry the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems or losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even a perceived lack of creditworthiness in the market, or questions about certain counterparties may lead to market-wide liquidity problems. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Group interacts on a daily basis. Increased systemic risk would have an adverse effect, that may be material, on the Group's ability to raise new funding and on its business, financial condition, results of operations or prospects.

2 - 1 - 6 Geographic Concentration Risks

Given the nature of the business environment in the Kingdom and other jurisdictions in which the Group operates, the Group's loan portfolios and deposits are concentrated in terms of geography, customer segment and currency.

Geographically, the Group's consolidated loan portfolio and consolidated deposits are concentrated in the Kingdom, 79.7% of loans and 91.18% of deposits as at 30 June 2014G. Accordingly, any deterioration in general economic conditions in the Kingdom or any failure by NCB to effectively manage its geographic risk concentrations would have an adverse effect, that may be material, on its business, financial condition, results of operations or prospects. See section 2-2-4 "*Risk Factors - Economic Risks*".

2 - 1 - 7 Risks Relating to Loan and Deposit Concentration with a Limited Number of Clients

NCB has a high concentration of loans to borrowers of large institutions and Government entities. NCB also has a high concentration of deposits from large institutions. As of 31 December 2013G, the top ten loans at NCB inside the Kingdom represented approximately 25% of the total loan portfolio in the Kingdom and approximately 92.9% of NCB's total shareholders' equity. NCB also has a high concentration of deposits from large depositors; as at 31 December 2013G, the top ten depositors inside the Kingdom represented 32% of the total deposit balances at NCB inside the Kingdom. A material weakening in the credit quality of, or a default by, one or more of NCB's large loan customers could result in NCB making significant additional loan loss provisions and experiencing reduced net income. Similarly, the withdrawal or non-renewal of its deposits by any one or more of NCB's material customers could require NCB to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive. Either of such eventualities would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 8 Risks Relating to the Concentration of Facilities in the Construction Sector

The total financing facilities including off-balance sheet commitments (after application of the credit conversion factors in accordance with SAMA rules) made available by NCB as part of its credit portfolio are concentrated in the construction sector. The total credit equivalent for this portfolio as at 30 June 2014G amounted to 22,627 million Saudi Riyals, representing 11.1% of NCB loans or 5.8% of its assets or 49.3% of its shareholders' equity. Accordingly, and based on the economic cyclicality of the construction sector, a downturn in that sector in the Kingdom would have an adverse effect, that may be material, on the business, results of operations, financial condition or prospects of NCB.

2 – 1 – 9 Risks Relating to the Concentration of Investments and Loans in a Limited Numbers of Currencies.

The Group's investment and loan portfolios are also primarily concentrated in Saudi Riyals, U.S. Dollars and Turkish Lira. Any significant market movements contrary to the currency position of the Group may cause volatility in the value of these portfolios which in turn would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

2 – 1 – 10 Risks Relating to the Collateral Securing Loans and Advances

As at 30 June 2014G, 19.5% of NCB's gross loan portfolio was collateralised (as at the same date, approximately 15.4% of the loan portfolio of Corporate Banking Group was collateralised, and approximately around 26.1% of the loan portfolio of Retail Banking Group was collateralised). NCB may have difficulty realising on collateral or enforcing guarantees or other third-party credit support arrangements when debtors default, and the time and costs associated with enforcing security and collateral in the Kingdom (or elsewhere in the GCC and Turkey) may make it uneconomical for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its loan losses. Since real estate forms a large part portion of lending collateral, a material deterioration in the economic conditions affecting real estate in the Kingdom (or elsewhere in the GCC and Turkey) or a decline in the value of certain markets would reduce the value of collateral securing the Group's loans and advances, increasing the risk that the Group would not be able to recover the full amount of any such loans and advances in a default. If the Group seeks to realise on any such collateral, it may be difficult to find a buyer and/or the collateral may be sold for significantly less than its appraised or actual value. The Group might not be able to realise adequate proceeds from collateral disposals to cover loan losses, which would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

2 – 1 – 11 Risks Relating to Project Finance

NCB's loan portfolio includes long-term project finance loans, such as infrastructure and industrial projects, and those loans are exposed to a variety of risks which differ quantitatively than the lending risks in general, which are related to the relevant financed projects, particularly given that paying those loans depends on the project success to achieve the expected returns. Those risks include risks of delays in regulatory approvals, environmental and social issues, completion risk and counterparty risk, which could adversely impact the project's ability to generate revenues. As in any project financing, it is not certain that these projects will perform as anticipated and any future project finance losses or high levels of loan restructuring would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 12 Risks Relating to Leverage and Capital Raising

Important factors contributing to banks becoming over-leveraged can include a low cost of funding, over-reliance on the analysis provided by rating agencies and the failure of risk management systems to adequately identify the correlation of risks and product and service pricing based on the relevant risks. NCB has imposed various policies related to leverage as set out in section 4-7 "*Company Description and Nature of Business– Risk Governance Framework*". If these policies were to fail or if NCB otherwise becomes over-leveraged as a result of the above or any other reasons, then it may be unable to satisfy its obligations in times of financial stress, and such failure would have an adverse effect on NCB's business, financial condition, results of operations or prospects.

Increased leverage may result in a risk to NCB's business, financial condition, results of operations or prospects since write-downs may lead to a decrease in NCB's assets in excess of its liabilities which would have an impact on NCB's financing position and increase the cost of funding from counterparties in addition to potentially causing credit rating downgrades. If such policies were to fail as a result of the causes discussed above or otherwise, NCB may become unable to meet its financial obligations at times of financial turmoil, and such failure would have an adverse effect on NCB's business, financial condition, results of operations or prospects.

In order to fund its growth strategy and enter into new lines of business, NCB will be required to expand its base of operations while continuing to meet regulatory capital adequacy requirements. If NCB requires additional capital in the future, there can be no assurance that it will be able to obtain this capital on favourable terms, in a timely manner or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or its own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. Any of these factors, if material, would have a an adverse effect on the Group's business, financial condition, results of operations or prospects. See 2-2-13 "*Risk Factors – Risks Relating to Capital Adequacy*".

2 - 1 - 13 Risks Relating to the Occurrence of an Asset-Liability Maturity Gap

A significant portion of NCB's funding requirements is met through short-term funding sources, primarily in the form of customer deposits. As at 30 June 2014G, 87.7% of NCB's funding (which includes amounts due to banks and financial institutions, customers' deposits, debt securities, other liabilities and equity) had remaining maturities of one year or less, 60% of which were payable on demand. The payment gap between NCB assets and liabilities reached 151,408 million Saudi Riyals on 30 June 2014G and 145,235 on 31 December 2013G.

NCB is therefore exposed to the risk that a substantial number of its depositors could seek to withdraw their on-demand deposits or elect not to roll over their time-deposits which could result in a mismatch in the maturity profile of NCB's assets and liabilities. This mismatch could be exacerbated if there are delays in loan payments and in attracting new deposit. Any such event could be due to global or local conditions, competition, a reduction in confidence in NCB, changes in regulation or other factors, many of which are outside of NCB's control and are unpredictable. If any of these events were to occur, NCB would need to seek sources of funding that may be more expensive to meet its funding requirements, and no assurance can be made that NCB will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. NCB's inability to refinance or to replace such deposits with alternative funding would adversely affect NCB's liquidity, business, financial condition, results of operations or prospects.

2 - 1 - 14 Risks Relating to Credit Ratings

NCB's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining NCB's cost of borrowings. The commission rates of NCB's borrowings are partly dependent on its credit ratings. There can be no assurance that any of NCB's ratings will remain the same in the future.

A material downgrade of NCB's credit ratings to a rating below investment grade (or announcement of a material change of outlook) may increase its cost of borrowing and may also limit its or its subsidiaries' or associates' ability to raise capital. Moreover, actual or anticipated changes in NCB's credit ratings may affect the market value of the Shares. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation. A material downgrade of NCB's credit ratings to a rating below investment grade (or announcement of a material change of outlook) could adversely affect NCB's liquidity, business, financial condition, results of operations or prospects.

2 - 1 - 15 Risks Relating to Proprietary Trading Activities

NCB undertakes limited trading activities on its own account, with NCB's proprietary trading book accounting for 0.7% of NCB's assets as at 30 June 2014G. NCB has laid out certain limits upon proprietary trading activities, based on NCB's prevailing appetite for risk and market conditions, further details of which are set out in section 4-6-3 "*Company Description and Nature of Business – Business of NCB–Treasury*". Proprietary trading involves risk. Further, proprietary trading results may be significantly affected by market conditions, in particular, and changes in regional securities markets, and could result in losses that would have an adverse effect on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 16 Risks Relating to the Debt Portfolio

NCB holds for its own account debt securities, some of which offer fixed rates of return. If interest rates prevailing in the markets were to materially increase and exceed the fixed interest rates applicable to the debt securities held by NCB at the time, then the market value of such debt securities will decrease.

NCB's investments in debt securities include securities denominated in U.S. Dollars. As such, a de-pegging or increase in the value of the Saudi Riyal against the U.S. Dollar may result in a devaluation of such securities in Saudi Riyal terms (see also the risk factor in section 2-2-6 "*Risks Relating to the De-pegging of the Saudi Riyal from the U.S. Dollar or Re-Pegging at a Different Rate*").

Further, as a result of surplus liquidity in the Kingdom's money markets generated by a low interest rate environment and the liquidity impact from Saudi Government Development Bonds, NCB has increased its allocation within its investment portfolio of emerging market bonds and international corporate bonds to approximately 10% of NCB's total investment portfolio. Such investments involve higher credit risk and are less liquid than the securities comprising the remainder of NCB's investment portfolio, which include debt securities issued by the governments of Saudi Arabia, members of the GCC, the U.S. and members of the Organization for Economic Cooperation and Development. As a result of these changes and in the event of a general deterioration in the conditions of the credit markets, there is a higher probability of default on such securities which may require higher future provisions for impairment on such debt securities.

Broadly, NCB's holdings of debt securities may be significantly affected by prevailing market conditions, in particular, changes in regional securities markets which would result in losses that could have an adverse effect on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 17 Risks Relating to the Group's Reputation

A reputation for financial strength and integrity is critical to the Group's ability to attract and maintain customers and facilitate strong relationships with its business counterparties. The Group's reputation could be damaged in the future by various factors, including, without limitation, a decline in, or a restatement of, or other corrections to, its financial results, adverse legal or regulatory action or employee misconduct causing the Group to breach applicable legal and/or regulatory requirements. The loss of business that could result from damage to the Group's reputation and perception could affect its financial condition, results of operations and prospects.

2 – 1 – 18 Risks Relating to Risk Management Policies

There can be no assurance that the Group's risk management strategies and internal controls that are designed to identify, monitor and manage the Group's risk (as described in section 4-7 "*Company Description and Nature of Business – Risk Governance Framework*") will always be successful in every circumstance and will ensure identifying every risk which the Group may face. Failures in risk management may leave the Group exposed to unidentified or unanticipated risks. Even where risks are identified, there can be no assurance that the Group's risk management and internal control policies and procedures will always adequately control, or protect the Group against, such risks, including credit, liquidity, market and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. The Group complements its stress test data with historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to the Group. This information may not be accurate, complete, up to date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures, or any failure by staff or management to follow such policies or procedures, may expose it to significant credit, liquidity, market or operational risk, which, if material, will have an adverse effect on the Group's business, financial condition, results of operations or prospects.

2 – 1 – 19 Risks Relating to Information Technology Systems

The Group depends on its respective IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of its business and operating data.

The Group's business activities would be materially disrupted and its internal controls compromised if there were a partial or complete failure of any member of the Group's IT systems or communications networks. Such failures can be caused by a variety of reasons, including natural disasters, extended power outages, computer viruses and other external electronic attacks. Although the Group maintains audit logs for its critical servers, there is a risk that the Group's audit logs, could be altered or come under attack. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system inputs, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. There can be no assurance that NCB's IT safeguards will be fully effective in the event of a disaster and any failure will have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

In particular, NCBC relies upon NCB for its IT and support services pursuant to a service level agreement dated 1 December 2013G. There is no assurance that NCB will continue to provide IT services to NCBC pursuant to the current terms of the service level agreement, and if NCBC fails to procure an appropriate alternate provider of such services without a delay that would disrupt the business of NCBC, such failure would have a material adverse effect on the NCBC's business, financial condition, results of operations or prospects.

NCB's business activities would be materially disrupted if there were a partial or complete failure of any of NCB's IT systems as a result of a failure to properly manage the functional specification and design, testing and implementation of NCB's core banking system replacement programme. Any such failure may have a material adverse effect on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 20 Legal Risks

Legal risk is the risk of losses occurring due to legal or regulatory action, the introduction of any new law or regulation that adversely affects the contracts or agreements of any member of the Group. Decisions of adjudicatory bodies in the Kingdom are not considered to establish a binding precedent for the decision of later cases and the principle of '*stare decisis*' is thus not accepted in the Kingdom. As a result, any experience with and knowledge of prior rulings of the courts in the Kingdom may not be a reliable basis from which to predict decisions that the courts in the Kingdom may adopt in the future. The outcome of any legal disputes relating to NCB would therefore be uncertain and it would be very difficult to predict with any certainty the approach that a court in the Kingdom would be likely to take if faced with complex corporate law or financial litigation or a question relating to a transaction such as the Subscription.

Under *Shari'ah* principles as applied in the Kingdom, the charging and payment of interest, which is deemed to constitute unlawful gain (*riba*), are prohibited and adjudicatory bodies in the Kingdom have the discretion to deny or modify the enforcement of contractual or other obligations where in the opinion of such adjudicatory bodies enforcement would be inequitable under *Shari'ah* principles. Accordingly, any provision in an agreement for the payment of, whether directly or indirectly, or the bearing of the cost of any amount based upon interest is not enforceable under the laws of the Kingdom. Although this position should not affect the validity and enforceability of any obligation to pay principal, in the event of any dispute relating to any significant loans or advances made by NCB, the inability to recover the interest portion of such loans or advances in any proceedings before any adjudicatory body in the Kingdom could result in losses to NCB and have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 21 Operational Risks

Operational risk and associated losses can result from fraud (external or internal), errors by employees, failure to document transactions properly in accordance with NCB's standardised documentation (or a failure to take appropriate legal advice in relation to non-standard documentation, as required by NCB internal policies) or to obtain proper internal authorisation (including the risk that its employees may not adhere to its compliance procedures and risk management thresholds), failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of NCB's counterparties or vendors), and NCB suffered 28.7 million Saudi Riyals in 2013G as a result of fraud and errors. It is not possible to eliminate any of these operational risks entirely, and the occurrence of any such event could have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 22 Risks Relating to Insurance Coverage

Insurances will not cover all the risks to which NCB may be exposed. If an event occurs for which insurance is held by NCB, such insurance may not adequately compensate NCB for the actual losses suffered by it. In addition, there can be no assurance that NCB's insurance policies, once obtained, will continue to be available on commercially reasonable terms, or at all. Each of these events or circumstances, or the occurrence of an event for which NCB is not insured would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 23 Risks Relating to Employees

The Group's performance is dependent on the efforts, experience, skill, reputation, technical know-how and commercial abilities of its respective senior management teams and other key employees, and on the Group's ability to attract, motivate and retain appropriately motivated and qualified staff.

There can be no assurance that the Group will always be able to retain all members of its respective senior management teams and other key staff, or that its succession plan will prove to be successful in every respect. Competition for personnel with banking expertise is significant in the Kingdom and the GCC. The Group may be required to offer more generous salaries and other benefits than it may have budgeted for in order to attract and retain employees. The market price of attracting and retaining employees is outside the Group's control as it is driven by factors such as the packages offered by competitor banks and other employers and general salary rates and cost of living considerations in the Kingdom and other jurisdictions in which the Group operates. The Group is not insured against loss that may be incurred in case of the departure of any of its key personnel. The loss of certain members of Senior Management or any significant number of its mid-level managers and skilled professionals, or their counterparts within NCB's subsidiaries and associates, may result in a loss of organisational focus, poor execution of operations and corporate strategy or an inability to identify and execute lucrative strategic initiatives. Any failure by the Group to manage its personnel needs successfully, including retaining or replacing key members of its respective senior management teams and/or recruiting new qualified personnel at a pace consistent with its growth, would have an adverse effect, that may be material, on its business, financial condition, results of operations or prospects.

In the last quarter of 2013G and the first quarter of 2014G, NCBC experienced a complete change of its management and a great number of key personnel left, including the CEO, COO, CFO, managers of Money, Securities, Human Resources, Risks, and Compliance Departments. Any failure of the new senior executive team to work together could have a material adverse effect on NCBC's business, financial condition, results of operations or prospects and a subsequent effect on NCB and the value of its investment in NCBC.

2 – 1 – 24 Risks Relating to Litigation Proceeding

In the ordinary course of its business, as a participant in the financial services industry, NCB may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. A final and adverse judgment rendered against NCB in a significant matter and a failure by NCB to identify and adequately control any legal and/or regulatory risk would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects. For more information about proceedings, see section 10-9 "*Litigation and Disputes*".

2 – 1 – 25 Risks Relating to Zakat Liability

NCB pays Zakat on behalf of its Shareholders. Zakat is then deducted from the gross dividend paid to Shareholders or charged to retained earnings if no dividend has been distributed.

While NCB has submitted Zakat returns for the years 2012G and 2013G and has obtained limited Zakat certificates in respect thereof, these returns remain under the process of final assessment by DZIT. NCB has made provision for such liability in its respective year-end accounts and discussions with the DZIT remain ongoing. The final amount of this liability is uncertain. Any significant unanticipated liability to Zakat would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 26 Risks Relating to the Tax Laws Applicable to TFKB

TFKB, a subsidiary of NCB (which owns 66.27% of TFKB's capital), is subject to Turkish corporation tax on its earnings within Turkey. There is a risk that the current rate of corporation tax may fluctuate or increase or that Turkish tax authorities may impose new tax regimes (whether related to corporation tax, other analogous tax or otherwise), or introduce any other changes in relation to tax laws which may have an adverse effect on TFKB's net profits and therefore impact negatively on its business, financial condition, results of operations or prospects.

2 – 1 – 27 Risks Relating to Additional Financial Support

Subscribers should be aware that no guarantee (implicit or explicit) is or will be given in relation to financial obligations of the Group by the Government, the Shareholders of NCB or any other person. Further, there can be no assurance that Government support will be available to NCB in the event of any future crisis or economic disruption in the Saudi banking sector.

If NCB does not receive adequate financial support from Government, in any future crisis, and alternative sources of funding are not available if required, this would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 28 Risks Relating to the Interpretation of Shari'ah Principles

NCB currently offers a range of Islamic finance products. All of these products are reviewed and approved by NCB's *Shari'ah* Board. In doing so, each member of NBC's *Shari'ah* Board must employ his interpretative efforts in accordance with methodological rules and principles of Islamic jurisprudence. While various Islamic schools of thought agree on the general methodology and the basic principles of interpretation, they may disagree on particular rules.

If any issues are called into question relating to the extent of *Shari'ah* compliance of Board-approved products offered by NCB, NCB's reputation would be negatively affected which may in turn have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 29 Risks Relating to Management's Lack of experience in Managing a Publicly Listed Company

Since its incorporation, NCB has operated as a private company and, accordingly, the Senior Management have limited or no experience in managing a publicly listed company whose shares are admitted to trading on the Tadawul. Similarly, some members of Senior Management have no experience of the day-to-day requirements of having to comply with the ongoing obligations of the laws and regulations pertaining to public companies in the Kingdom. The regulatory oversight and reporting obligations imposed on public companies whose shares are traded on the Tadawul will require substantial attention from Senior Management and any failure to comply with the ongoing obligations of the laws and regulations and rules pertaining to public companies in the Kingdom, including, but without limitation, the Listing Rules, could expose NCB to fines, public censure, a suspension or a cancellation of trading in the Shares on the Tadawul on NCB which would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 – 1 – 30 Risks Related to Intellectual Property

NCB's name and trademarks registered or non-registered by NCB are considered factors which support its business. The Senior Management believes that the identity it has developed for NCB name has greatly contributed to the success of its business. NCB's competitive position depends on various factors which include its ability to use such trademarks in the provision of its services in the sector in which it operates, and the protection of such trademarks against any unauthorized use. Accordingly, the failure of NCB to properly protect the trademarks mentioned above, or its need to take legal action to protect them, may adversely affect its ability to use them, which would affect NCB's future business, financial condition, results of operations or prospects. For more information on intellectual property rights, see section 10-8 "*Intellectual Property*".

2 – 1 – 31 Risks Related to the Treasury Shares

As a condition to MOCI's and SAMA's approval for NCB to continue to hold the Treasury Shares acquired in 2009G, NCB is required to sell the Treasury Shares on the open market one year from the date on which the Retail Allocation became publicly traded. Such disposal may take place in a single sale for the entirety of the Treasury Shares or separate sales involving tranches of Treasury Shares during the twelve month period. There is a risk that, in the event that a single sale of all of the Treasury Shares takes place that causes the supply of Shares on the Tadawul to exceed the demand for Shares at that time, such sale would lead to a fall in the price of the Shares and the proceeds of the disposal to be received by NCB may be lower than expected by the Board. There is also no guarantee that market conditions on the Tadawul will remain stable or favourable during the twelve month period and NCB may be forced to sell the Treasury Shares at a time when market conditions, and subsequently the available Share price for the Treasury Shares, is less favourable than as at the date of this Prospectus resulting in lower proceeds received by NCB from the sale of the Treasury Shares than is currently expected.

2 – 2 Risks Relating to the Political/Regulatory Environment in the Kingdom And Generally

2 – 2 – 1 Risks Relating to Competition

New banks and other financial institutions could be established in the Kingdom in the future, and foreign banks which currently do not operate in the Kingdom could enter the banking sector in the Kingdom. The competitive landscape in the banking sector in the Kingdom could also be affected by consolidations, mergers of existing banks, restructurings or spin-offs (including mergers, consolidations and restructurings mandated by the Government). The occurrence of such developments is outside NCB's control and is difficult to predict. The occurrence of any of those possibilities means that NCB may face competition from other banks or financial institutions which may have greater resources at their disposal and/or other advantages which are difficult or impossible for NCB to match, thus putting NCB at a competitive disadvantage. A bank with greater economic resources at its disposal than NCB may be able to surpass NCB in advertising spend, entice away key staff members with more attractive remuneration packages and commit more resources to developing its product lines, expanding its branch network and supporting its customer service platform. There is particular competition on commission or other profit rates, with banks in the Kingdom competing to offer lower lending rates to customers or higher commission or other profit rates on deposits. This could have negative consequences, the most important of which is NCB losing customers or market share, decreasing net special commission margins, increasing costs or requiring NCB to seek additional funding or capital, which may not be available at attractive rates or at all. Competition may also have the effect of acting as a limit on the fees and commissions which the Group is able to charge, as other banks seek to win business by offering lower fee and commission structures. In particular, a bank with greater economic resources at its disposal than NCB may be able to significantly undercut NCB to a level which NCB would be unwilling to match. Any inability of NCB to match and better the product offering and customer service quality offered by other banks may cause customers to switch to another bank or may cause potential new customers to choose a bank other than NCB. As noted above, a number of banks operate in the Kingdom and others may be established in the future to service the sizeable market for banking services in the Kingdom. Accordingly, a material increase in competition in the Group's key areas of operation, amongst other things, including the risk of a material increase in competition against TFKB in Turkey, may limit the Group's ability to implement its growth strategy, increase its client base and expand its operations, and/or reduce or reverse its asset growth rate and profit margins on the services it provides, in turn having an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

2 – 2 – 2 Risks Relating to Political and Security Concerns

The majority of the Group's assets, presence and customer base are situated in the MENA region and Turkey. The MENA region, Africa and Turkey, are subject to a number of geopolitical and security risks. Beginning in the first half of 2011G, a number of countries in the MENA region have witnessed serious civil unrest ranging from public demonstrations to, in certain cases, armed conflict, foreign military intervention and a change of government. As at the date of this Prospectus, armed conflict is ongoing in Syria and there is increasing sectarian violence in Iraq.

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by states and organisations including Turkey, the European Union (the "**EU**") and the United States). Such circumstances and domestic terrorist attacks in Turkey or any regional risks affecting investor sentiment in the MENA region as a whole would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

As the political, economic and social environments in the region in which the Group operates remain subject to continuing development, investments in such countries are characterised by a significant degree of uncertainty. Any unexpected changes in the political, social, economic or other conditions in countries within the Middle East region or Turkey may have a material adverse effect on the investments that the Group has made or may make in the future, which in turn would have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

2 – 2 – 3 Risks Related to Legal Reforms

As the legal environment remains subject to continuous development, investors in the Kingdom and the GCC countries may face uncertainty as to the laws and regulations applicable to their investments. Any unexpected changes in the legal systems in the Kingdom and the GCC may have a material adverse effect on the rights of holders of the Shares or the investments that NCB has made or may make in the future, which would in turn have a material adverse effect on NCB's business, financial condition, results of operations or prospects.

2 – 2 – 4 Economic Risks

The majority of the Group's assets and operations are located in the Kingdom and, accordingly, its business may be affected by the financial, political and general economic conditions from time to time prevailing in or affecting the Kingdom and/or the Middle East generally and, in particular, by the level of economic activity in the Kingdom.

Oil income continues to play a pivotal role in its economic planning and development. Consequently, any sustained downturn in oil prices could substantially slow down or disrupt the Kingdom's economy, and the banking sector in particular, which would in turn have a negative impact on NCB and the market price of the Subscription Shares.

Like other countries in the Middle East, the Kingdom could be affected by political and social unrest in the region. See section 2-2-1 "*Risk Factors – Risks Relating to Political and Security Concerns*". While the political situation in the Kingdom has remained stable, the Saudi government faces a number of challenges arising mainly from the relatively high levels of population growth and unemployment amongst the Saudi youth and the security threat posed by certain groups of extremists, which would have an adverse effect on the Saudi economy. A general downturn or sustained deterioration in the economy of the Kingdom, instability in certain sectors of the Kingdom or the regional economy or any major political upheaval therein would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

In addition, NCB has significant assets and operations in Turkey, through its 66.27% shareholding in TFKB (it's whole assets amount to TL 25,126,629,000, which is equivalent to approximately 78,705,138,980 Saudi Riyals). See section 4-6-5 "*International Banking*" and section 4-12 "*Business of TFKB*". Turkey may be subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Turkey has seen relative growth but there can be no assurance that such growth or stability will continue. Moreover, while the government of Turkey's recent policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. TFKB may also be adversely affected generally by economic developments in or affecting Turkey including uncertainties relating to Turkey's accession to the EU which may adversely affect the Turkish financial markets and result in greater volatility. As a result, NCB's business, financial condition, results of operations or prospects will also be affected in general by financial, political and general economic developments in or affecting Turkey.

Investors in emerging markets should also be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, and economic risks.

2 - 2 - 5 Risks Related to the Global Economy

Since the middle of 2007G, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility and a lack of price transparency in credit markets. The adverse market conditions have impacted investment markets globally including adverse changes and increased volatility in commission or other revenue rates and exchange rates and decreased returns from securities, property and other investments. There can be no assurance that continuing or future global economic uncertainty will not have a material adverse effect on the economies of the Kingdom and other jurisdictions in which the Group operates and on the Group's business, financial condition, results of operations or prospects.

2 - 2 - 6 Risks Relating to the De-pegging of the Saudi Riyal from the U.S. Dollar or Re-Pegging at a Different Rate

The primary exchange rate of relevance to NCB is the Saudi Riyal to the U.S. Dollar. The Saudi Riyal is pegged to the U.S. Dollar at a fixed exchange rate (in the case of the Saudi Riyal, the exchange rate is currently USD 1: SAR 3.75). The peg to the U.S. Dollar has been maintained by SAMA at the same rate since 1986G. However, there can be no assurance that the U.S. Dollar peg will be maintained going forward, or that the peg will be retained at its current rate. Any de-pegging of the Saudi Riyal from the U.S. Dollar, or its re-pegging at a different rate, could result in a significant fluctuation and revaluation of the Saudi Riyal relative to the U.S. Dollar and, by extension, to other GCC currencies pegged to the U.S. Dollar.

As with the SAR-USD peg, there can be no assurance that the monetary authorities of other GCC countries will maintain their current peg to the U.S. Dollar, or that such pegs will be retained at their current rate. Any de-pegging of these other currencies from the U.S. Dollar or their re-pegging at a different rate could result in significant fluctuation and revaluation of such currencies relative to the U.S. Dollar and, by extension, to the Saudi Riyal.

The likelihood of SAMA doing so and the timing of any such decision are outside the control of NCB and are difficult to predict.

While the Saudi Riyal is currently pegged to the U.S. Dollar, it is not pegged to other major currencies such as the Euro, Pound Sterling or Japanese Yen and thus fluctuates freely against these other currencies in line with prevailing foreign exchange rates. There can be no assurance that NCB's risk management policies and procedures related to management of currency fluctuations, including any fluctuations caused by any de-pegging or re-pegging, will prove successful at all times. De-pegging or re-pegging of the Saudi Riyal to the U.S. Dollar, as well as fluctuations against any other currency, could have a material adverse effect on the relative value of NCB's assets, the cost of its liabilities and NCB's business, financial condition, results of operations or prospects.

2 - 2 - 7 Risks Relating to a Monetary Union between GCC Countries

There is the possibility that Bahrain, Kuwait, the Kingdom and Qatar may each abandon their respective national currencies in favour of a single GCC currency within the next few years. If a single GCC currency is adopted, the necessary convergence of laws, policies and procedure will bring significant changes to the economic and political infrastructure in each of the GCC states. As yet there has been no announcement of an official timetable for the progression of the monetary union and there are currently no details of new legislation or policies. Subscribers should, however, be aware that new legislation and any resulting shift in policy and procedure in the Kingdom could affect NCB's business, financial condition, results of operations or prospects in the Kingdom and Bahrain.

2 - 2 - 8 Risks Relating to Future Development of the Kingdom's Banking Sector

The growth rate of the banking sector in the Kingdom may not be as high and sustainable as currently anticipated by NCB as the pace of economic growth in the Kingdom, is currently not clear. The growth and development of the banking sector is subject to a number of uncertainties that are beyond the control of NCB, and which if sustained and materially unfavourable could have a material adverse effect on NCB's business, financial condition, results of operations or prospects.

2 - 2 - 9 Risks Relating to Licensing

In order to carry out and expand its business, the Group needs to maintain or obtain a variety of licences, permits, and approvals from regulatory, legal, administrative, tax and other authorities and agencies – both in the Kingdom and in other jurisdictions in which NCB maintains a presence. The processes for obtaining these permits and approvals are often lengthy. If the Group is unable to maintain or obtain the relevant permits and approvals, its ability to achieve its strategic objectives would be impaired, with a consequent negative impact on the Group's business, financial condition, results of operations or prospects.

In particular, TFKB does not have valid licenses to operate 31 branches and 3 central regional offices. Although TFKB is currently pursuing the requisite licenses, there is no assurance that such licenses will be issued by Turkish authorities. In the event that TFKB is not able to obtain the requisite licenses, the related branch or office would be shut or would suspend operations, which would have an adverse effect on TFKB's business, financial condition, results of operations or prospects.

2 - 2 - 10 Risks Relating to the Group's Compliance with Applicable Laws

NCB is subject to the Regulations for Companies promulgated under Royal Decree No. M/6 dated 22/3/1385H. (corresponding to 20 July 1965G), as amended (the "**Companies Regulations**") as well as the Banking Control Law issued by Royal Decree No. M/5 dated 22/2/1386H (corresponding to 12 June 1966G) the "**Banking Control Law**") and its implementing regulations and circulars issued by SAMA, which are applicable in the Kingdom. If SAMA finds that a bank has failed to comply with the provisions of the Baking Control Law, or with the provisions of any regulations issued under it, or if such Bank adopts a policy that might seriously affect its solvency or liquidity, SAMA may, with the approval of the Minister of Finance and National Economy, take one or more of the following measures: (1) appoint one or more advisers to advise the bank in the conduct of its business, (2) order the suspension or removal of any director or officer of the bank, (c) limit or suspend the granting of credits or the acceptance of deposits, or (d) require the bank to take such other steps, as it may consider necessary. If SAMA finds that a bank persistently contravenes the provisions of the Banking Control Law or the decisions or regulations made thereunder, it may call upon such a bank to submit its reasons for the contravention, accompanied by its proposals to rectify the position within a stated period. If SAMA is of the opinion that such proposals are not sufficient for their purpose or if the bank fails to implement an agreed or prescribed course of action within the stated period, the Minister of Finance and National Economy may, subject to the approval of the Council of Ministers, revoke the license of the said bank. Should SAMA take any such measures, including the revocation of NCB's license, this would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects. In addition, NCB's subsidiaries are also subject to rules and regulations similar to those discussed above, and the violation of which would have an adverse effect on their business, financial condition, results of operations or prospects.

2 - 2 - 11 Risks Related to Saudisation and Labour Force Regulation

Companies in the Kingdom are required by the Kingdom's Ministry of Labour to ensure that a certain percentage of their staff are Saudi nationals, depending on the size and nature of the particular company. As at 30 June 2014G, 93.9% of NCB's permanent employees are Saudi nationals. NCB experiences competition in recruiting and training Saudi nationals and may occasionally find it difficult to recruit and retain qualified Saudi nationals. Failure by NCB to employ sufficient Saudi nationals would cause NCB to be questioned by the Ministry of Labour or SAMA for non-compliance with these requirements which could, in turn, have an adverse effect on its business, financial condition, results of operations or prospects.

Further, the Kingdom has recently tightened labour restrictions on foreigners and introduced amendments to the Labour Law. Whilst the immediate impact of these changes on NCB is of limited effect, there can be no assurance that such changes will not have a more significant effect on NCB's customers, or its customers in a particular industry segment (such as contracting companies which rely on a significant expatriate workforce to sustain their operations). If the recent labour law changes adversely affect one or more of NCB's borrowers, this may in turn affect such borrowers' ability to meet their respective payment obligations to NCB under those borrowings. Any such occurrence in respect of a significant borrower or group of borrowers would in turn have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 - 2 - 12 Risks Relating to Anti-money Laundering and Anti-terrorism regulations

The Group is required to comply with all anti-money laundering and anti-terrorism laws and other regulations applicable to each Group member under the laws of the Kingdom and the other jurisdictions in which the Group operates or pursuant to any other law applicable to each member of the Group. Further details of the comprehensive rules covering know-your-customer ("**KYC**") which make it necessary for the bank to get specific information from its customers before dealing with them, as well as anti-money laundering and counter-terrorist financing requirements for the banking sector in the Kingdom are set out in section 3-5 "*Market and Industry Overview –Banking Regulation and Supervision in the Kingdom*". These laws and regulations require the Group, amongst other things, to adopt and implement certain KYC policies and procedures and to report suspicious transactions to the relevant authorities. The Group cannot guarantee that its systems and policies to detect and prevent the use of its banking network for money laundering activities by terrorists and terrorist related organisations will be sufficiently robust to ensure it is always in absolute compliance with all such laws and regulations in every relevant jurisdiction. Future actions for breaches of such laws of regulations may result in the imposition of fines and other sanctions. Similarly, breaches, or even allegations of breaches, may negatively impact the Group's reputation. Any of the above would have an adverse effect, that may be material, on the Group's business**,** financial condition, results of operations or prospects.

To the extent that the Group fails to fully comply with applicable anti-money laundering, anti-terrorism and related laws and regulations, the relevant governmental agencies to which it reports or which have jurisdiction over it may have the power and authority to impose fines and other regulatory penalties or restrictions on the Group, each of which would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

In addition, the Group's operations may be limited by way of restrictions, sanctions and other penalties imposed by the United Nations, the United States, the EU and other states and international organisations. EU, the United States and other international sanctions have in the past been imposed on companies engaging in certain types of transactions with specified countries or companies or individuals in those countries. Enterprises operating in certain countries in the Middle East have been subject to such sanctions in the past. The terms of legislation and other rules and regulations which establish sanctions regimes are often broad in scope and difficult to interpret. If the Group were in the future to violate existing or future EU, US or international sanctions, penalties could include a prohibition or limitation on the Group's ability to conduct business in certain jurisdictions or to access the US or international capital markets. Any such sanction would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects.

NCB cannot give any assurance that its compliance, audit and reporting systems and procedures that it maintains in order to comply with SAMA regulations and legal requirements (which are subject to extensive oversight by regulatory authorities, including regular examination activity) will at all times be fully effective. Its maintenance of these systems is dependent on its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. In the case of actual or alleged non-compliance with regulations, NCB could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including, without limitation, by customers for damages and/or even the loss of its general banking licence. Any of these would have an adverse effect, that may be material, on NCB's business, financial condition, results of operations or prospects.

2 - 2 - 13 Risks Related to Capital Adequacy

The Group is subject to a number of regulations designed to maintain the safety and soundness of financial institutions, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include laws and regulations in the Kingdom and Turkey, as applicable (in the case of the

Kingdom, those of SAMA and the Capital Market Law, issued by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 31 July 2003G) (the "**CML**") and its implementing regulations). Capital adequacy regulations may limit the activities of the Group and increase its cost of doing business. In addition, a breach of regulatory guidelines could expose the Group to potential liabilities and sanctions.

NCB's business could be directly affected by future changes to the Kingdom's banking regulatory policies, laws and regulations, such as those affecting the extent to which NCB can engage in specific businesses, as well as changes to other governmental policies. NCB cannot provide any assurance that such changes will not adversely affect NCB's business, financial condition, results of operations or prospects. Material failure to comply with the rules, regulations and guidelines of SAMA would have a material adverse effect on NCB's business, financial condition, results of operations or prospects.

See sections 2-1-20 *"Legal Risks"* , 2-1-21 *"Operational Risk"* and 2-1-23 "*Risks Relating to Employees*". In the event of actual or alleged compliance breaches, the Group may become subject to investigation and judicial or administrative proceedings, which could result in penalties or lawsuits (including by customers) for damages, the loss of its ability to do business in the international banking market or specific jurisdictions, the loss of its banking licence or otherwise materially damage its reputation, each of which would have an adverse effect, that may be material, on the Group's business, financial condition, results of operations or prospects

In response to the recent global financial crisis, the Basel Committee on Banking Supervision (the "**BCBS"**) enhanced its capital measurement and capital adequacy standards by issuing a new capital framework (the "**Basel III Framework"**). The Basel III Framework focuses on strengthening the quality of regulatory capital, raising the minimum capital requirements, enhancing risk coverage and reducing cyclicality of regulatory capital. It introduces new leverage and liquidity ratio requirements and capital buffers to promote the build-up of capital. These enhancements are to be implemented by means of a staggered approach up to 2019G, although SAMA may in the future introduce changes to the way these enhancements are implemented in the Kingdom in a manner that is different from that which is currently envisaged as at the date of this Prospectus.

This includes the introduction of the leverage ratio in 2011G, the liquidity ratio in 2012G and the capital adequacy ratios in 2013G. The leverage and liquidity ratios are currently being monitored for Saudi Banks in accordance with SAMA's phase-in arrangements.

Consequently, NCB may require additional capital in the future in the event that it experiences unexpected losses in its operations or a material decline in asset quality results in higher than expected risk-weighted assets growth. NCB may need to improve its liquidity ratios in relation to any changes in Basel III and other changes in regulations being considered by SAMA in the event of any subsequent adverse changes to the Basel III Framework or adverse changes in regulations as directed by SAMA which, while strengthening further NCB's ability to pay off its short-term debts as they fall due, may reduce the amount of capital available to be deployed for other purposes and hence restrict NCB's activities, flexibility and in effect serve as a restriction on NCB's day-to-day liquidity functions, limiting NCB's ability to deploy capital towards profit generating banking activity.

Additional capital, whether in the form of financing arrangements, or additional equity, may not be available on attractive terms, or at all. See section 2-1-12 "*Risks Relating to Leverage and Capital Raising*". Further, any such development may require the Group to change how it conducts its business, including by reducing the risk and leverage of certain activities, or otherwise have a negative impact on its business, the products and services it offers and the value of its assets. If the Group cannot obtain adequate funds to satisfy its capital requirements through financing arrangements any additional funds obtained through share capital increases may dilute the ownership percentage held by current Shareholders. See section 2-3-3 "*Future sales and offers*".

NCB may become subject to mandatory guidelines and direct monitoring by SAMA if in the future it is not able to maintain the minimum required capital and liquidity position. There can be no assurance that NCB will be successful in maintaining capital and liquidity ratios that comply with regulations that come into effect in the future. If NCB is unable to increase its capital and liquidity ratios to the extent required, its credit ratings may drop, its cost of funding may increase, and its Share price may decline.

2 – 3 Risks Relating to the Subscription Shares

2 – 3 – 1 NCB is controlled by certain principal Shareholders whose interests may not be aligned with the interests of the minority

Following the Subscription, NCB's principal Shareholders, PIF, GOSI and PPA will together hold 64.33% of NCB's issued share capital, giving the Government an indirect majority shareholding in NCB. As a result, NCB's principal Shareholders, acting together or with other shareholders, have the ability to significantly influence NCB's business through their ability to control decisions and actions that require Shareholder approval including, without limitation, the election of directors, significant corporate transactions, dividend distributions and capital adjustments. If circumstances were to arise where the interests of NCB's principal Shareholders conflict with the interests of minority Shareholders (including Subscribers to the Retail Allocation), Subscribers to the Retail Allocation may be disadvantaged by any such conflict and the principal Shareholders may otherwise exercise their control over NCB in a manner that may adversely affect NCB's business, financial condition, results of operations or prospects.

2 – 3 – 2 Absence of prior market for the Shares

Currently, there is no public market for the Shares, and there can be no assurance that an active trading market for the Shares will develop or be sustained after the Subscription. The Subscription Price has been determined based upon several factors, including the current performance and results of NCB, future prospects for its business, the banking sector in the Kingdom and globally, the assessment of Senior Management, and NCB's operations and financial results. Various factors, including, without limitation, NCB's financial results, general conditions in the industry, health of the overall economy, the regulatory environment within which NCB operates and other factors that are beyond NCB's control would cause fluctuations, which may be material, in the price and trading liquidity of NCB's shares.

2 – 3 – 3 Future sales and offers

Sales of substantial amounts of NCB's shares in the public market following the completion of the Subscription, or the perception that these sales will occur, could adversely affect the market price of NCB's shares. The sale of a substantial number of Shares by the Selling Shareholder could have an adverse effect on the market for the Shares and may result in a lower market price of the Shares. NCB does not currently intend to issue additional Shares immediately following the Subscription. If and when NCB decides to raise additional capital by issuing new Shares, the newly issued Shares would dilute existing shareholdings to a certain extent if existing Shareholders do not exercise their rights in any rights issue and if the existing shareholders decide to sell a substantial number of Shares, this could potentially reduce the value of such Shares. Any sale of Shares by the Selling Shareholder may not take place without the CMA's approval.

2 – 3 – 4 Liquidity and fluctuations in the prices of the Subscription Shares

Subscribers may not be able to re-sell the Retail Allocation at the Subscription Price or above, or may not be able to sell them at all, since the market price of the Subscription Shares may be negatively affected after the Subscription by various factors within or outside NCB's control, including, without limitation, variation in anticipated operating results, market conditions, or changes in Government regulations. Market volatility and weak general economic conditions may also negatively affect the share price in the market.

2 – 3 – 5 Distribution of dividends

Future distribution of dividends will depend on several factors, including, without limitation, the future profit, financial condition, capital requirements and distributable reserves of NCB and general economic conditions and other related factors that the Board may deem significant from time to time. NCB makes no assurance whatsoever that the payment of any such dividends will actually be approved by the Shareholders in the General Assembly nor any assurance as to the amounts which will be paid in any given year.

3. MARKET AND INDUSTRY OVERVIEW

3 – 1 Economic Environment in the Kingdom

The Kingdom has the largest economy in the Gulf Cooperation Council ("**GCC**"), in terms of gross domestic product ("**GDP**"). Nominal GDP for the year ended 31 December 2013G was 2.79 trillion Saudi Riyals[1] . The major catalyst of the overall economy's growth is driven by the Kingdom's significant oil reserves.

Since 2009G, the Kingdom's gross domestic product experienced significant growth, with a Compounded Annual Growth Rate ("**CAGR**") of 6.4% between 2009G-2013G (vs. 2009G-2013G CAGR in MENA of 3.9%[2]).The Kingdom's growth is on the back of rising oil prices (from USD 61.4 per barrel in 2009G to USD 106.5 per barrel in 2013G[3]) which have further increased the Kingdom's reliance on oil revenues from 78.0% to 87.7%, of the Kingdom's revenues, between 2009G and 2013G. Accordingly, the increased oil revenue (CAGR 2009G-2013G of 22.8% to 727 billion Saudi Riyals) has enabled the Kingdom to achieve a budget surplus that is driving the Government's spending (2009G-2013G cumulative expenditure was 3.88 trillion Saudi Riyals[4]).

The Government has been focusing its efforts on reducing the Kingdom's reliance on the oil sector, which is demonstrated by the increase in non-oil GDP[5] to Real GDP from 50.2% in 2012G to 53.2%[6] in 2013G. This is attributable to (a) a reduction in average daily crude production from 9.74 million barrels per day ("**mbpd**") in 2012G to 9.59 mbpd in 2013G[7] and (b) the buoyant growth in the non-oil sector GDP (non-oil private-sector grew by 5.5% in 2013G while Government-sector grew by 3.7%).

The non-oil sectors that have witnessed particular growth in the Kingdom over the last decade include banking and financial services, manufacturing & industrial, utilities, mining, transportation, communication, tourism and retail sectors. Furthermore, the Government is also focusing on further developing the trade, aviation, real estate, healthcare, education, utilities, mining, transportation, communication sectors. Banking sector's loans to the private sector increased from 734.2 billion Saudi Riyals in 2009G to 1,123.6 billion in 2013G at a CAGR of 11.2%[8]

The outlook for the Kingdom's economy going forward remains robust. GDP growth in the coming years is expected to be driven by the Government's increased expenditure on infrastructure, domestic development and the non-oil private sectors. The Government has announced an all-time high budget of 885 billion Saudi Riyals for 2014G[9] and the International Monetary Fund (IMF) estimates that the Kingdom's real GDP will grow by 4.1% in 2014G, while nominal GDP will increase by 3.7% to 2.90 trillion Saudi Riyals.

3 – 2 The Banking Sector in the Kingdom

There are, at present 23 commercial banks operating in the Kingdom, of which 12 are Saudi Banks incorporated in the Kingdom, with the remaining 11 being branches of international banks. With the exception of NCB, all the other Saudi Banks are all publicly listed joint stock companies and their shares are traded on the Tadawul.

The following table outlines the Saudi Banks and branches of international banks:

Source: SAMA

Table 3-1 Saudi Banks and branches of international banks

Banks incorporated in Saudi Arabia	Branches of International banks
Alinma Bank	Bank Muscat
Al-Rajhi Bank	BNP Paribas

1 International Monetary Fund, World Economic Outlook Database, April 2014G
2 International Monetary Fund, World Economic Outlook Database, April 2014G
3 Saudi Arabian Monetary Agency ("SAMA") Annual Report 2013G
4 SAMA Annual Report 2013G
5 Non-oil GDP excludes crude petroleum, natural gas and petroleum refining
6 SAMA Annual Statistics 2013G
7 OPEC Monthly Oil Market Report – May 2014G
8 SAMA Quarterly Report Q1 2014G
9 MEED, Special Report on Saudi Arabia – Feb 2014G

Banks incorporated in Saudi Arabia	Branches of International banks
Arab National Bank	Deutsche Bank
Bank Al-Bilad	Emirates NBD
Bank Al-Jazira	Gulf International Bank
Banque Saudi Fransi	Industrial and Commercial Bank of China *
National Commercial Bank	JPMorgan Chase
Riyad Bank	National Bank of Bahrain
Samba Financial Group	National Bank of Kuwait
The Saudi British Bank	National Bank of Pakistan
Saudi Hollandi Bank	State Bank of India
Saudi Investment Bank	TCZiraatBankasi

* Licensed but has not commenced operations as at 01 Jul 2014G

Source: SAMA

All Saudi Banks provide a comprehensive range of retail and wholesale banking products and services. Four of the banks, namely Al Rajhi Bank, Bank Al-Bilad, Bank Al-Jazira and Alinma Bank, provide fully *Shari'ah*-compliant products and services. The remaining eight banks provide a combination of *Shari'ah*-compliant and conventional banking products and services. [10]

In addition to the commercial banks, there are five state-run credit institutions, being the Saudi Industrial Development Fund, the Real Estate Development Fund, the Agricultural Development Fund, the Saudi Credit & Savings Bank and PIF.

The banking system outlook in the Kingdom is rated as "Stable" by Moody's. The key historic and future drivers of the Kingdom's banking industry are[11]:

3 – 2 – 1 An operating environment characterised by:

i. sound economic growth over recent years driven by significant government spending, robust domestic consumption and increased private sector activity – 2010G-2013G Real GDP CAGR was 6.0% from 1.07 billion Saudi Riyals to 1.27 billion Saudi Riyals;

ii. low government debt (public debt of 75.12 billion Saudi Riyals in 2013G i.e., 2.7% of GDP[12]) and sizable reserves (of USD 673.74 billion in 2012G[13]) indicating continued expansionary fiscal policy;

iii. favourable demographics with a young and growing population driving consumer demand – 2010G-2013G population CAGR of 2.9% from 27.6 million to 30.0 million; 47.8% [14] of the population was below the age of 25 in 2013G;

iv. growing consumer awareness and appetite for banking products and services (including *Shari'ah*-compliant products) – banking assets 2010G-2013G CAGR was 10.2%[15]; and

v. the promulgation of a number of recent regulations and implementing directives by SAMA regarding real estate finance, lease finance, monitoring of finance companies and real estate mortgage amongst others;

10 Annual reports of the Saudi Banks 2013G
11 Moody's credit rating report as of 8 October 2013G
12 SAMA Annual statistics 2013G
13 World Bank Data – Saudi Arabia
14 United States Census Bureau
15 Annual Reports of Saudi Banks 2013G

3 – 2 – 2 Asset quality and capital characterized by:

i. sound operating conditions leading to a low defaults, which in addition to continued loan growth supports asset quality metrics (2013G Saudi Banks NPL ratio was 1.3%)[16];

ii. strong capitalization (average 2013G capital adequacy ratio ("**CAR**") and Tier 1 was 17.9% and 16.5% respectively), which leads to a substantial loss-absorption capacity[17]; and

iii. high, albeit declining, single-party exposures and corporate sector vulnerabilities;

3 – 2 – 3 funding and liquidity characterized by:

i. low-cost deposit-based funding;

ii. a comfortable ratio of liquid assets to total assets (of 21.6% in 2013G[18]); and

iii. stable public-sector balances (bank loans to the public sector have on average been 13.8% of total assets of Saudi commercial banks from 2009G – 2013G[19]);

3 – 2 – 4 profitability and efficiency characterized by:

i. increasing profitability, supported by (1) continued business growth; (2) a low-cost funding structure; and (3) relatively lean cost structures; and

ii. low interest rate environment and increasing competition which affects lending margins; and

3 – 2 – 5 Support from competent authorities

systemic support characterized by the authorities displaying a strong willingness and capacity to resolve bank distress without losses to depositors or other creditors.

3 – 3 Competitive Landscape

According to the IMF, the assets of the Saudi Banks account for 98% of the total assets of the Kingdom's banking sector and more than half of the total assets of the Kingdom's financial services sector[20]. Loan portfolios are concentrated towards Government and large private sector corporates, with limited lending to SMEs. These credit concentrations are mitigated by strict capital requirements (Basel III) imposed by SAMA[21].

The 7 largest Saudi Banks have a combined share of 83%[22] of the total assets of Saudi Banks, with the 3 largest Saudi Banks (NCB, Al Rajhi and Riyad Bank) having a combined share of 46%. The dominant shareholdings of 2 of the 3 largest banks are held by Government related entities while 3 (The Saudi British Bank, Banque Saudi Fransi and Arab National Bank) of the remaining 4 are affiliated to major international banks. All Saudi Banks, even with direct/indirect Government ownership, are run on a commercial basis.[23]

Table 3-2 Ownership and total assets for Saudi Banks (as of 31 December 2013G)

Saudi Banks	Government Ownership	Foreign Bank Ownership	Total Assets	
			SAR millions	% of Total Assets
National Commercial Bank	PIF (69.29%), GOSI (10.00%) and PPA (0.04%)	-	377,280	20%
Al-Rajhi Bank	GOSI (10.10%)	-	279,871	15%

16 Al Bilad Banking sector report 2013G
17 SAMA Quarterly Report Q1 2014G
18 SAMA Quarterly Report Q1 2014G
19 SAMA Annual statistics 2013G
20 IMF - Saudi Arabia: Financial Sector Assessment Program Update – July 2013G. Financial services sector includes banks, investment funds, insurance companies and real estate financing companies
21 Saudi Arabian Banking Regulation and Supervision – Management of Liquidity and Credit Risk.
22 2013G annual reports
23 IMF, Saudi Arabia Financial Sector Assessment Program Update: Detailed Assessment of Observance of Basel Core Principles

Saudi Banks	Government Ownership	Foreign Bank Ownership	Total Assets	
			SAR millions	% of Total Assets
Riyad Bank	PIF (21.70%), GOSI (21.60%) and PPA (9.10%)	-	205,246	11%
Samba Financial Group	PIF (22.90%), GOSI (11.70%) and PPA (15.00%)	-	205,037	11%
The Saudi British Bank	GOSI (9.70%)	HSBC Asia Holdings (UK) Limited (40.00%)	177,302	10%
Banque Saudi Fransi	GOSI (13.2%)	Crédit Agricole Corporate & Investment Bank (31.11%)	170,057	9%
Arab National Bank	GOSI (11.2%)	Arab Bank (40.00%)	137,935	8%
Saudi Investment Bank	GOSI (21.50%) and PPA (17.30%)	-	80,495	4%
Saudi Hollandi Bank	GOSI (10.40%)	ABN AMRO Bank N.V. (40.00%)	80,468	4%
Alinma Bank	PIF (10.00%), GOSI (10.00 per cent) and PPA (10.7%)	-	63,001	3%
Bank Al-Jazira	-	National Bank of Pakistan (5.80%)	59,976	3%
Bank Al-Bilad	-	-	36,323	2%
TOTAL			1,872,991	100%

Source: 2013G Annual Reports of Saudi Banks

GOSI: General Organization for Social Insurance – Saudi Arabia

PIF: Public Investment Fund

PPA: Public Pension Agency

3 – 3 – 1 Assets and Liabilities

Saudi Banks demonstrated improvement in both efficiency and asset quality during 2013G. Total assets and net loans grew by 9% and 12% reaching 1.87 trillion Saudi Riyals and 1.13 trillion Saudi Riyals, respectively.

Saudi Banks' credit quality has also improved in 2013G and some legacy NPLs have been written off. Accordingly, the NPL ratio[24] decreased from 1.9% in 2012G to 1.3% in 2013G. Additionally, the NPL coverage[25] ratio increased from 145% in 2012G to 157% in 2013G[26].

Furthermore, gross loans have grown 12% while deposits have grown at 10% between 2012G and 2013G, resulting in an increase in the LDR from 76.0% to 77.4% [27].

SAMA is a member of the Basel committee and is following its guidance on capital standards, having already published its Basel III guidelines. The dynamic Internal Capital Adequacy Assessment Process ("**ICAAP**") conducted by SAMA, allows SAMA to individually analyse business plans and growth aspirations of each local bank on a regular basis and accordingly provide guidance on desired capital ratios specific to each bank. Under SAMA's Basel III guidelines, banks must hold a minimum common equity Tier 1 of 4.5%, a minimum Tier 1 capital of 6.0% and a minimum total capital (Tier 1 and Tier 2 capital) CAR of 8.0% of risk weighted assets.

24 Non-performing loans divided by gross loans.
25 Credit loss provisions divided by total non-performing loans.
26 Al Bilad Banking sector report 2013G
27 Al Bilad Banking sector report 2013G

All these requirements increase with the addition of countercyclical and capital conservation buffers[28]. As at 31 December 2013G, all Saudi Banks' Tier 1 capital ratio were well above the guidelines at an industry average of 16.5%[29]. In 2013G, the Saudi Bank's average CAR of 17.9% of risk weighted assets was also in excess of minimum CAR requirements.

The consolidated corporate loans, retail loans, net investments and other assets of Saudi Banks as at 31 December 2013G are illustrated below:

Table 3-3 Consolidated corporate loans, retail loans, net investments and customer deposits of Saudi Banks as at 31 December 2013G

Saudi Banks	Retail loans	Corporate loans	Net Investments	Other Assets	Customer Deposits
					SAR millions
Consolidated	349,814	780,431	422,992	319,757	1,459,535

Source: 2013G Annual Reports of Saudi Banks

Retail loans constituted approximately 18.7% of total banking sector assets, as at 31 December 2013G, with mortgage finance having the highest growth of 25.7% year-on-year, the increase of vehicle and equipment loans by 17.4%, the credit card loans by 5.3%, and the other loans by 21.8%. Growth in retail loans is on the back of increased product innovation, expansion of product offerings and strong demand for Islamic banking products and services. The creation of the Saudi Credit Bureau ("**SIMAH**")[30] has also helped banks in expanding retail business.

Corporate loans mainly comprised commercial loans, advances and overdrafts, accounting for 41.7% of total banking sector assets as at 31 December 2013G.[31] The growth in corporate lending over recent years has been fuelled by economic growth and Government spending. Project Finance has been a strong growth area with several projects taking place in 2012G and 2013G which amounted to a cumulative value of USD 29.0 billion (equivalent to approximately 108.77 billion Saudi Riyals at the exchange rate on 30 June 2014G).

Net investments comprise 22.6% of total banking sector assets as at 31 December 2013G. Treasury activities of Saudi Banks have grown by a 2010G-2013G CAGR of 7.4% to 423.0 billion Saudi Riyals as the financial markets have become more sophisticated with increased use of financial instruments within both conventional and Islamic banking. Additionally, on the back of a structural excess liquidity in the Kingdom, the market has also increasingly reinvested in local treasuries as well as U.S. treasury bills.

Customer deposits mainly comprised demand deposits which amounted to 61.1% of total customer deposits, as at 31 December 2013G.[32] On the back of a low interest rate environment, customers have shifted to demand deposits versus time and savings deposits. Accordingly, increased utilization of demand deposits has resulted in increased liquidity for Saudi Banks.

3 – 3 – 2 Profitability

In 2013G, all Saudi Bank's consolidated operating income and net income increased to 69.7 billion Saudi Riyals and 37.3 billion Saudi Riyals respectively, recording a year-on-year growth rate of 7.2% and 7.1% respectively. Due to decreasing margins of most banks in the Kingdom consolidated operating income and net income have grown at a disproportionate rate to consolidated assets.

28 Banks will be required to hold a capital conservation buffer of 2.5% of common equity (or other fully loss absorbing capital) to withstand future losses during periods of financial and economic stress. Countercyclical Capital Buffer within a range of 0% to 2.5% of common equity (or other fully loss absorbing capital) will be implemented according to national circumstances.

29 SAMA Quarterly Statistics – Q1 2014G.

30 SIMAH was established by the commercial banks operating in the Kingdom within the context of the current banking act and regulations issued by SAMA. SIMAH aggregates credit-related information among participating members to provide credit providers with credit risk information.

31 SAMA Quarterly Statistics – Q1 2014G.

32 SAMA Annual Statistics

The consolidated operating income, operating expenses and net income of Saudi Banks as at 31 December 2013G is illustrated below:

Table 3-4 Consolidated operating income, operating expenses and net income of Saudi Banks as at 31 December 2013G

Saudi Banks SAR millions	Operating income	Operating expenses	Other(expenses)/ income
Consolidated	69,698	32,068	129

Source: 2013G Annual Reports of Saudi Banks

* Net income after deducting non-controlling interest

Average Net Interest Margins ("**NIMs**") – which is the difference between financial asset incomes and financing costs) for Saudi Banks decreased from 2.52% to 2.49% between 2012G-2013G[33].This is primarily due to the highly competitive landscape of the Kingdom's banking sector and ample liquidity. NIMs were also impacted by decreasing investments in Saudi Government Development Bonds ("**SGDBs**")[34] and shift to lower yielding securities.

In addition to the special commissions item, banking income comprises banking service fees, foreign currency conversions, and trading income. This represented 34.1% of total net income for the year 2013G.

As a result of the economic environment in the Kingdom, banks' assets have improved resulting in lower credit provisions. Saudi Banks have also improved efficiency and managed to reduce operating expenses. As a result, the operating expenses to operating income ratio of Saudi Banks decreased from 46.5% in 2012G to 46.0% in 2013G.

3 – 3 – 3 Distribution

The banking sector has developed a sophisticated distribution network covering the Kingdom. As at 31 December 2013G, there were 1,768 bank branches, 13,883 ATMs and 107,763 POS terminals.[35]

The Kingdom has also witnessed a steady migration from traditional payment channels to electronic payment channels. The values of electronic based transactions/payments for ATM and POS has increased by 5% and 18% respectively, for the year ended 31 December 2013G.[36]

3 – 3 – 4 Outlook

Despite strong growth in credit and deposits, the Kingdom's banking sector remains in need of further penetration with a limited number of banks operating in the Kingdom. In terms of loans (with the exclusion of Government loans) as a percentage of GDP, the Kingdom ranks lowest among the GCC countries. The loan to GDP ratio of the Kingdom was 40.5% in 2013G (compared to 36.5% in 2012G) compared with the average loan to GDP ratio of 64.3% for the GCC countries (excluding the Kingdom) as a whole.[37]

Saudi Banks' LDR was low compared to regional peers. The average LDR for GCC countries (excluding the Kingdom) was 85.8% compared with a LDR of 77.4% for Saudi Banks.

33 Al Bilad Banking sector report 2013.
34 SGDBs are fixed rate, negotiable debt instruments issued by the Government of Saudi Arabia, through the SAMA.
35 SAMA Quarterly Report – Q1 2014G.
36 SAMA Annual Statistics.
37 BMI Saudi Arabia Commercial Banking Report Q1 2014G.

The above factors indicate significant growth potential for banking services in the Kingdom going forward.

Table 3-5 Loan to GDP and loan to deposit ratios for GCC countries

GCC Countries	2013G Loan to GDP ratio	2013G Loan to Deposit ratio
	%	%
Bahrain	58.2%	48.0%
Kuwait	61.8%	92.7%
Oman	49.6%	97.4%
Qatar	72.3%	103.5%
United Arab Emirates	79.6%	87.3%
Average (Excluding the Kingdom)	64.3%	85.8%

Source: Central Bank, Country Statistical Reports, CIA country statistics

During 2013G, the construction sector had been under pressure due to labour registration issues which resulted in project delays and impacted construction companies' cash flows and profitability. This has increased the risk of higher NPLs for the banking sector. Going forward the banking sector outlook remains positive, however, it is faced with the following challenges:

- Increasing competition in retail lending is expected to create pressure on banks' margins;
- In the last quarter of 2013G, SAMA introduced changes to bank fee charges to promote consumer protection. These changes include scrapping the minimum balance fee which banks charged if the account balance drops below 1,000 Saudi Riyals, cheque books are issued or ATM cards are replaced. These changes will impact banks' income from the fees of those services;
- SAMA is expected to cap the LTV[38] on mortgage financing to 70%, which will have an impact on growth of relatively higher risk mortgage loans; and
- Saudi banks may find difficulty in increasing loan interests if basic interest rates go upwards beyond their current levels.

3 – 4 NCB's Competitive Position

NCB is a major player in all segments of the banking sectors in the Kingdom and competition arises across all products and services. NCB's primary competitors are Al Rajhi Bank, Banque Saudi Fransi, Riyad Bank, Samba Financial Group and The Saudi British Bank.

NCB aspires to become the region's leading financial services group. As part of this strategy, NCB aims to become the leading bank in terms of income, profits, electronic and customer services as well as the first choice bank for employees.

NCB launched several initiatives to achieve these objectives including building upon its operational and IT infrastructure, improving distribution capabilities, improving access to products and services for all customer segments, enhancing sales and service models, diversifying sources of income, implementing administrative restructuring, improving its working environment, raising the efficiency of staff, and attracting the right talent of employees.

Consequently, NCB registered net income of 7.8 billion Saudi Riyals in 2013G, an increase of 21.7% from 2012G and the highest annual net income in NCB's history. Customer deposits increased by 9.9% during the year amounting to 300.6 billion Saudi Riyals as at 31 December 2013G. In parallel, lending operations also expanded, with 2013G net loans and advances totalling 187.7 billion Saudi Riyals, representing a 14.8% increase from the previous year.

38 Loan to Value is a ratio used by lenders to assess the risk of a potential mortgage size against the appraised value of the real estate being acquired.

In 2013G, NCB has registered the highest operating income, net income, deposits and loans relative to all Saudi Banks. In 2012G, NCB had the highest deposits while its operating income, net income, and loans were second only to Al Rajhi Bank. NCB's market share relative to Saudi Banks in 2012G and 2013G is illustrated in the table below:

Table 3-6 NCB's market share in 2012G and 2013G

Saudi Banks	Operating Income		Net Income *		Customer Deposits		Loans and advances - Net	
SAR millions	2012G	2013G	2012G	2013G	2012G	2013G	2012G	2013G
National Commercial Bank	13,509	14,863	6,452	7,852	273,530	300,602	163,461	187,687
Other Saudi Banks	51,498	54,835	27,922	29,402	1,050,869	1,158,933	842,426	942,557
TOTAL	65,007	69,698	34,374	37,254	1,324,399	1,459,535	1,005,887	1,130,244
NCB's market share (%)	21%	21%	19%	21%	21%	21%	16%	17%

Source: 2013G Annual Reports of Saudi Banks

* Net income after deducting non-controlling interest

3 – 4 – 1 Retail Banking

In 2012G and 2013G NCB was number 2 (behind Al Rajhi Bank) within the retail banking segment. NCB's retail banking market share in 2012G and 2013G relative to other Saudi Banks is illustrated in the table below:

Table 3-7 NCB's retail banking market share in 2012G and 2013G relative to other Saudi Banks

Saudi Banks	Retail Loans – Net				Net Income from Retail Segment			
	2012G		2013G		2012G		2013G	
	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector
Al-Rajhi Bank	117,679	39%	129,090	37%	5,175	46%	5,403	47%
National Commercial Bank	50,941	17%	62,330	18%	2,138	19%	1,854	16%
Riyad Bank	30,612	10%	34,188	10%	913	8%	1,169	10%
Arab National Bank	22,177	7%	22,835	6%	692	6%	549	5%
The Saudi British Bank	18,642	6%	23,630	7%	510	5%	714	6%
Samba Financial Group	17,280	6%	18,776	5%	1,082	10%	891	8%
Banque Saudi Fransi	10,506	3%	10,282	3%	304	3%	257	2%
Bank Al-Jazira	10,377	3%	12,188	3%	(135)	(1%)	(100)	(1%)
Bank Al-Bilad	7,540	2%	9,462	3%	268	2%	246	2%
Alinma Bank	6,202	2%	9,379	3%	(121)	(1%)	37	-
Saudi Investment Bank	6,202	2%	9,360	3%	252	2%	269	3%
Saudi Hollandi Bank	5,390	2%	8,293	2%	90	1%	190	2%
TOTAL	303,548		349,813		11,168		11,479	

Source: 2013G Annual Reports of Saudi Banks

During 2013G, NCB:

- undertook extensive network expansion and upgrades in technological infrastructure. After opening 17 new branches and installing 292 new ATMs in 2013G, NCB had a total of 322 branches, 2,252 ATMs and 57 Quick Pay centres by the close of 2013G;
- increased its total customer base to more than 2.8 million, conducting more than 151.7 million transactions in 2013G, of which 91.7% were through electronic channels. This reflected NCB's drive to expand its services to all target segments; and
- launched a new website, www.aqar.alahli.com, enhancing customers' electronic banking experience. NCB also set up an NCB Twitter account whereby over 100,000 followers have access to the latest products and services.

As a result, the PF portfolio registered an increase of 16.4%, while the real estate finance portfolio grew by 87.4% Credit card business grew by 22.2% and the auto lease ("**AL**") finance business grew by 39% NCB increased its retail loan portfolio by 11.4 billion Saudi Riyals during 2013G, or equivalent of 22.4% year-on-year, however, net income from the retail segment decreased by 13.3% primarily because of lower yields on retail loans due to increased competition.

3 – 4 – 2 Corporate Banking

In 2012G and 2013G, NCB was the market leader within the corporate banking segment (with the exception of net income from the corporate segment in 2012G). NCB's corporate banking market share in 2012G and 2013G relative to other Saudi Banks is illustrated in the table below:

Table 3-8 NCB's corporate banking market share in 2012G and 2013G relative to other Saudi Banks

Saudi Banks	Corporate Loans – Net *				Net Income from Corporate Segment			
	2012G		2013G		2012G		2013G	
	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector
National Commercial Bank	112,520	16%	125,357	16%	813	7%	2,594	18%
Banque Saudi Fransi	92,279	13%	101,025	13%	1,769	16%	1,404	10%
Riyad Bank	87,363	12%	97,670	12%	1,740	15%	2,568	18%
Samba Financial Group	85,351	12%	94,679	12%	1,575	14%	1,681	12%
The Saudi British Bank	77,457	11%	82,484	11%	1,636	14%	1,892	13%
Arab National Bank	64,152	9%	65,621	8%	737	7%	917	7%
Al-Rajhi Bank	54,263	8%	57,723	7%	577	5%	252	2%
Saudi Hollandi Bank	39,886	6%	45,359	6%	1,228	11%	1,306	9%
Alinma Bank	30,985	4%	35,545	5%	629	6%	608	5%
Saudi Investment Bank	27,849	4%	38,207	5%	310	3%	350	2%
Bank Al-Jazira	19,519	3%	22,807	3%	169	1%	235	2%
Bank Al-Bilad	10,715	2%	13,954	2%	130	1%	268	2%
TOTAL	702,339		780,431		11,313		14,075	

Source: 2013G Annual Reports of Saudi Banks

* Corporate loans include other loans and advances not classified as retail loans

During 2013G, NCB:

- designed a strategy to improve customer-related services, develop further controls, attract select new clientele and improve efficiency in decision-making processes;
- increased investment in electronic products related to corporate banking such as, B2B[39], e-Corp and e-Trade services;
- expanded the Bank's international presence;
- launched several programs to meet financing requirements of small and medium enterprises. This included the launch of a new product that provides trade financing facilities against real estate collateral;
- increased the Bank's market share of the loans provided by banks to small businesses through the Government's Kafalah program in cooperation with the Saudi Industrial Development Fund to 40%; and
- expanded corporate and project financing activities by concluding agreements to fund several major projects.

As a result, NCB was able to increase the corporate loans by 11.4% from 2012G to 2013G. Net income from corporate segment increased by 219% year-on-year.

3 – 4 – 3 Treasury

In 2012G and 2013G, NCB continued to lead the Treasury banking segment in the Kingdom by acquiring a market share between 27-32%. NCB's Treasury banking market share in 2012G and 2013G relative to other Saudi Banks is illustrated in the table below:

Table 3-9 NCB's treasury banking market share in 2012G and 2013G relative to other Saudi Banks

Saudi Banks	Net Investments				Net Income from Treasury Segment			
	2012G		2013G		2012G		2013G	
	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector
National Commercial Bank	116,428	32%	125,294	30%	2,898	29%	3,033	27%
Samba Financial Group	52,576	15%	60,431	14%	1,063	11%	1,482	13%
Al-Rajhi Bank	40,543	11%	39,573	10%	1,201	12%	1,408	13%
Riyad Bank	36,254	10%	43,538	10%	1,246	12%	1,025	9%
The Saudi British Bank	27,587	8%	37,400	9%	984	10%	1,045	9%
Banque Saudi Fransi	27,498	8%	34,299	8%	755	8%	633	5%
Arab National Bank	24,323	7%	28,248	7%	802	8%	883	8%
Saudi Hollandi Bank	11,379	3%	16,849	4%	128	1%	195	2%
Saudi Investment Bank	10,912	3%	17,697	4%	339	3%	635	6%
Bank Al-Jazira	8,994	2%	12,597	3%	301	3%	433	4%
Alinma Bank	1,960	1%	5,399	1%	220	2%	356	3%
Bank Al-Bilad	1,537		1,667		93	1%	89	1%
TOTAL	359,991		422,992		10,030		11,217	

Source: 2013G Annual Reports of Saudi Banks

39 B2B: Business-to-business includes commerce transactions between businesses.

During 2013G, NCB managed to maintain a high-quality portfolio while enhancing asset distribution, developing liquidity levels, and increasing profit rates without affecting financial efficiency or the ability to innovate, diversify, and adopt new products which is demonstrated by NCB's introduction of 14 new *Shari'ah*-compliant Treasury products in 2013G.

NCB registered a 2012G-2013G growth in investments of 7.6% versus 22.2% registered by all Saudi Banks (excluding NCB), which reduced NCB's market share from 32.3% to 29.6% over the same period. In addition, NCB registered a 2012G-2013G growth in Treasury income of 4.7% versus 14.7% registered by all Saudi Banks (excluding NCB), which reduced NCB's market share of treasury income from 28.9% to 27.0% over the same period.

3 – 4 – 4 Key NCB operating metrics relative to Saudi Banks

NCB's LDR is the lowest amongst the Saudi Banks, which indicates significant room for future growth. The table below highlights NCB's position for 2012G and 2013G, in terms of total loans and deposits:

Table 3-10 NCB's position for 2012G and 2013G, in terms of total loans and deposits

Saudi Banks	Loans and Advances - Net				Customer Deposits				LDR	
	2012G		2013G		2012G		2013G		2012G	2013G
	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector	SAR millions	% of sector	%	%
National Commercial Bank	163,461	16%	187,687	17%	273,530	21%	300,602	21%	60%	62%
Al-Rajhi Bank	171,941	17%	186,813	16%	221,395	17%	231,589	16%	78%	81%
Riyad Bank	117,975	12%	131,858	12%	146,215	11%	153,200	10%	81%	86%
Banque Saudi Fransi	102,785	10%	111,307	10%	115,572	9%	131,601	9%	89%	85%
Samba Financial Group	102,631	10%	113,455	10%	148,736	11%	158,337	11%	69%	72%
The Saudi British Bank	96,098	10%	106,115	9%	120,434	9%	138,961	10%	80%	76%
Arab National Bank	86,329	9%	88,456	8%	107,560	8%	106,373	7%	80%	83%
Saudi Hollandi Bank	45,276	5%	53,652	5%	53,914	4%	61,875	4%	84%	87%
Alinma Bank	37,187	3%	44,924	4%	32,214	2%	42,763	3%	115%	105%
Saudi Investment Bank	34,051	3%	47,567	4%	40,413	3%	57,044	4%	84%	83%
Bank Al-Jazira	29,897	3%	34,995	3%	40,675	3%	48,082	3%	74%	73%
Bank Al-Bilad	18,256	2%	23,415	2%	23,741	2%	29,108	2%	77%	80%
TOTAL	1,005,887		1,130,244		1,324,399		1,459,535		76%	77%

Source: 2013G Annual Reports of Saudi Banks

3 – 4 – 5 Operating Income and Profitability

NCB's consolidated operating income and net income increased by 10% and 21% respectively in 2013G. As a result, NCB registered the largest market share and highest revenue and net income compared to all Saudi Banks. In 2013G, NCB's ROE was the highest among Saudi Banks excluding Al Rajhi.

Table 3-11 NCB's market share in 2013G

Saudi Banks	Operating Income		Net Income*		Return on Equity
	SAR millions	% of sector	SAR millions	% of sector	%
National Commercial Bank	14,863	21%	7,852	21%	18.5%
Al-Rajhi Bank	14,115	20%	7,438	20%	19.4%
Riyad Bank	7,074	10%	3,890	10%	11.7%
Samba Financial Group	7,001	10%	4,510	12%	12.9%
The Saudi British Bank	5,815	8%	3,651	10%	16.5%
Arab National Bank	5,110	7%	2,488	7%	13.1%
Banque Saudi Fransi	5,053	7%	2,402	6%	10.4%
Saudi Hollandi Bank	2,616	4%	1,501	4%	16.0%
Alinma Bank	2,279	3%	1,015	3%	6.0%
Saudi Investment Bank	2,017	3%	1,126	3%	12.6%
Bank Al-Bilad	1,917	3%	729	2%	14.3%
Bank Al-Jazira	1,839	3%	652	2%	11.4%
TOTAL	69,698	100%	37,254	100%	

Source: 2013G Annual Reports of Saudi Banks

* Net income after deducting non-controlling interest

3 – 5 Banking Regulation and Supervision in the Kingdom

3 – 5 – 1 The Saudi Arabian Monetary Agency (SAMA)

SAMA was established pursuant to Royal Decree No. 30/4/1/1046 dated 25/7/1371H (corresponding to 20 April 1952G). SAMA statutes were issued in accordance with Royal Decree No. 23 dated 23/5/1377H (corresponding to 15 December 1957G). Some of SAMA's objectives are as follows:

- to issue and strengthen the Saudi currency and to stabilize its internal and external value;
- to deal with the banking affairs of the Government; and
- to regulate commercial banks and exchange dealers.

In addition, SAMA's functions in relation to circulation of currency and regulation of commercial banks are as follows:

- to stabilize and strengthen the internal and extern value of the currency and take measures capable of strengthening the currency's cover;
- to hold and operate monetary reserve funds as separate funds earmarked for monetary purposes only;
- to mint, print and issue the Saudi currency and handle all matters relating thereto in conformity with Saudi Currency law No.24, dated 23rd Jumada Awa1 1377H; and

- to regulate commercial banks and exchange dealers as may be found appropriate.

The Banking Control Law aims at protecting Saudi Banks, customers' deposits, shareholders and at securing adequate liquidity levels. The BCL prohibits Saudi Banks from undertaking any activities that might cause damage to their shareholders and customers. In addition, the BCL prohibits individuals and companies from using the word "bank" or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA. The BCL sets out the framework within which Saudi Banks must operate in the Kingdom and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars, directives and guidelines are generally not made publicly available outside the banking sector.

3 - 5 - 2 Consumer Protection

SAMA has been a strong advocate of the protection of consumer interests since obtaining its charter in 1952G and the issuance of the BCL in 1966G. Consequently, SAMA has played an important role in ensuring that the financial institutions under its supervision deal with consumers fairly and honestly.

As the Kingdom's financial sector evolves and grows, SAMA continues to review these developments and decides on appropriate legislative, regulatory and organisational changes to provide the level of consumer protection expected from a country that is a member of the world's main economic and financial organisations. SAMA's current objective is to ensure that all consumers who have dealings with licensed financial institutions in the Kingdom receive the expected level of consumer protection including fair treatment, honesty and ease of access to financial products and services.

SAMA has set out the conduct expected from such financial institutions through various regulations, policies and issued instructions including the 'Banking Consumer Protection Principles' (the "**Principles**") issued in June 2013G.

The Principles set out key guidelines to enable licensed banking institutions to deliver the required level of fair treatment, honesty and financial inclusiveness thereby meeting SAMA's strategic objective for financial consumer protection in the Kingdom. The Principles apply to the activities of Saudi Banks operating by way of a SAMA license, who are under the supervision of SAMA and who are dealing with persons who are, or may become consumers. It also applies to the activities of any third party engaged by such Saudi Banks to undertake any outsourced activities. The Principles are binding on all such Saudi Banks, complementary to the instructions and internal regulations issued by any such Saudi bank and applicable to all transactions that are made with individual consumers effective from 1 September 2013G.

The Principles were issued pursuant to powers granted to SAMA under the following legislation and regulations:

- the charter of the Saudi Arabian Monetary Agency – Article (3d), issued by Royal Decree No. 23 dated 23/05/1377H (corresponding to 15 December 1957G);
- the Banking Control Law issued by Royal Decree No. M/5. dated 22/02/1386H (corresponding to 12 June 1966G); and
- the Ministerial Decree No. 3/2149 dated 14/10/1406H (corresponding to 22 June 1986G).

The 'G20 High-Level Principles on Financial Consumer Protection' provide the background for the 'General Principles for Financial Consumer protection' which are now being adopted as part of the Principles.

3 - 5 - 3 Real Estate Financing and Finance Leasing

In August 2012G, the Saudi Council of Ministers issued a package of legislation in relation to the finance industry including real estate financing (the "**Real Estate Finance Law**"), leasing (the "**Finance Lease Law**") and supervision of financial companies (the "**Law of Supervision of Finance Companies**"), in each case, as further described below. In February 2012G, SAMA issued the implementing regulations of these laws.

3 - 5 - 3 - 1 The Real Estate Finance Law

This law provides the regulatory architecture for the authorisation and licensing of Saudi Banks and finance companies to enter the real estate market. In particular:

- Saudi banks will be allowed to own real estate and engage in real estate finance activities in a manner that does not conflict with Shari'ah principles;

- the relevant Government department will publicise real estate market activity and real estate financiers will be granted access to courts and notary registers;
- real estate financiers must conduct a check of the borrowers' credit record through one of the authorised credit bureaus, with the borrowers' consent, to verify his financial position and credit history; and
- real estate financiers will not be permitted to provide any form of lending that exceeds 70% of the value of the relevant property.

3 - 5 - 3 - 2 The Financial Lease Law

This law prescribes the rules relating to finance leasing and specifically states that:

- the lessee shall not be liable for loss of the leased asset unless caused by deliberate act or negligence on his part;
- ownership of leased assets may be conveyed to the lessee pursuant to the provisions of the contract either by stipulating that ownership conveyance is conditional on paying the dues of the contract, paying such dues plus a certain amount, promising to sell for a nominal price, paying the price agreed upon in the contract, paying the value of the leased asset at the time of concluding the sale contract, or by way of gift; and
- a condition to advance the maturity dates of future lease payments to be made by the lessee in case of default is permissible, provided such payments do not exceed the number of defaulted payments.

3 - 5 - 3 - 3 The Law on Supervision of Finance Companies

This law applies to finance companies engaged in financing activities in a manner not conflicting with the principles of *Shari'ah* to provide SAMA-approved forms of financing, including real estate financing.

However, regulations surrounding items such as capital adequacy, loan-to-value ratios, service fees and consumer rights have yet to be announced.

3 - 5 - 4 Capital Market Authority

The CMA was established by the CML. The CMA is a governmental organisation with financial, legal and administrative independence.

The CMA regulates the Kingdom's capital markets. It issues the required rules and regulations for the implementation of the provisions of the CML aimed at creating an appropriate investment environment. The functions of the CMA include:

- regulating and developing the capital market;
- protecting investors and the general public from unfair and unsound practices involving fraud;
- protecting and regulating against deceit, cheating, manipulation and insider trading;
- ensuring fairness, efficiency and transparency in securities transactions;
- developing measures to reduce the risks pertaining to securities transactions;
- developing, regulating and monitoring the issuance of, and trading in, securities;
- regulating and monitoring the activities of entities subject to the control of the CMA;
- regulating and monitoring full disclosure of information related to securities and their issuers; and
- regulating proxy and purchase requests and public share offerings.

3 - 5 - 5 Management of Liquidity and Credit Risk

Under the BCL, a Saudi Bank's deposit liabilities must not exceed 15 times its reserves and paid up share capital or invested capital. The current percentage specified by SAMA for a statutory deposit is 7% of total customers' demand deposits, and 4% of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings, time deposits, margins of letters of credit and guarantee, excluding all types of repo deposits.

In addition to the statutory deposit, each Saudi Bank is also required to maintain a liquid reserve of at least 20% of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding thirty (30) days in order to comply with the requirements of the BCL.

The BCL also sets a maximum limit on the amount of financial liability that a Saudi Bank may incur in respect of any one person. Under the BCL, a Saudi bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding 25% of its total reserves and paid up or invested capital. SAMA may increase this limit up to a maximum of 50%, if it considers it to be in the public interest.

SAMA also has the power to regulate the liquidity and credit risk of a Saudi Bank by restricting, among other things, the maximum amount of money which may be loaned by a Saudi Bank, the level of a bank's exposure to single customer and the categories of loans which a Saudi Bank can make. These restrictions may vary from bank to bank in the Kingdom depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the BCL.

Over the years SAMA has developed a reputation as a strict regulator. In 1989G, SAMA introduced accounting and disclosure standards for commercial banks in the Kingdom, which essentially comply with IFRS. All Saudi Banks are now in compliance with IFRS and the Accounting Standards for Financial Institutions issued by SAMA. The Saudi Banks also prepare their financial statements to comply with the BCL and the Companies Regulations in the Kingdom.

3 - 5 - 6 Reporting Requirements

Saudi Banks are required to submit monthly statements of their overall financial position, the consolidated financial position including domestic and foreign branches and units and statements of the individual financial position of foreign branches or units. Saudi banks also have to submit quarterly, biannual and annual reports to SAMA. The quarterly reports deal with matters like the geographic distribution of foreign assets, governmental deposits and profit and loss accounts. The biannual and annual reports are comprehensive and deal with matters like the maturity schedule of credit facilities, risk concentrations, large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the relevant Saudi bank's risk asset based capital adequacy.

Saudi Banks are required to prepare their audited annual statements within six months of each financial year end and submit copies to SAMA. Annual financial statements have to be audited and signed by at least two external auditors. Listed joint stock companies have to publish quarterly statements as their stocks are listed on the Tadawul. However, quarterly financial statements are not audited but reviewed by the auditors in accordance with generally accepted standards and are limited in terms of the scope of disclosure.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure by Saudi Banks. Saudi Banks now issue a breakdown of loans by sector and geography. Saudi Banks also report doubtful loans, loan loss reserves and write-offs.

3 - 5 - 7 Anti-Money Laundering and Counter-Terrorist Financing

The Kingdom is a signatory to, and has implemented measures required by, the 1988G United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the "1988**G Vienna Convention**"), the International Convention for the Suppression of the Financing of Terrorism ("**UNSC** 1373"), and various other international conventions and agreements relating to money laundering and terrorist financing.

Money laundering is considered an offence under *Shari'ah* law. Over the past 10 years the Kingdom has put into place a relatively comprehensive legislative and regulatory framework that deals with money laundering and terrorist financing. The Kingdom implemented its first customer identification procedure in 1975G. Beginning in the mid-1990Gs, the Kingdom began to put in place a more expansive anti-money laundering regime with the issuance of the 1995G anti-money laundering manual and several other circulars from SAMA and other government agencies.

The Kingdom has comprehensive rules covering KYC and anti-money laundering and counter-terrorist financing requirements for the banking sector. In April 2003G, SAMA issued the Account Opening Rules. These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash and also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations. In 2008G, SAMA revised the Account Opening Rules by adding additional requirements and providing guidelines on dealing with non-resident individuals, entities and multi-lateral organisations.

The Kingdom's existing anti-money laundering regime was overhauled by SAMA in May 2003G with its issue of Rules Governing Anti-Money Laundering and Combating Terrorist Financing (SAMA No. BCI/122: dated 27 May 2003G). These rules govern, among other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programmes, reviews and audits, KYC policies and standards, and record retention. In August 2003G, the Kingdom updated its existing anti-money laundering statutes with the enactment of the Anti-Money Laundering Law providing an up-to-date statutory basis for money laundering and terrorist financing offences, establishing a Financial Intelligence Unit, and enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

In November 2005G, SAMA issued a circular (SAMA No. 35185/MAT/539: dated 22 November 2005G) requiring all banks and financial institutions operating in the Kingdom to strictly comply with the provisions of the Anti-Money Laundering Law. The Authorised Person Regulations issued by the Board of the CMA pursuant to its Resolution number 1-83-2005, dated 21/5/1426H (corresponding to 28 June 2005G) also require investment banks to comply with the Anti-Money Laundering Law.

In April 2012G, the Kingdom updated its existing Anti-Money Laundering Law and Implementing Rules (pursuant to Royal Decree No. M/31 dated 11/05/1433H (corresponding to 2 April 2012G)) and in April 2013G, SAMA issued a circular (SAMA No. 34100074807MAT, dated 15/06/1434H) (corresponding to 25 April 2013G)) requiring all Saudi Banks and financial institutions operating in the Kingdom to strictly comply with the updated Anti-Money Laundering Law and Implementing Rules.

The GCC is in the unique position of being a member of the Financial Action Task Force on Money Laundering (the "**FATF**"), even though the individual member states of the GCC are not FATF members. As a member of the GCC, the Kingdom has issued laws and regulations designed to comply with the "Forty Recommendations on Money Laundering" and the "Nine Special Recommendations on Terrorist Financing" issued by the FATF.

In September 2003G, the FATF carried out, in conjunction with the GCC, the mutual evaluation of the Kingdom. This evaluation was the sixth evaluation of the GCC member states and was performed on the basis of the common anti-money laundering/counter-terrorist financing assessment methodology employed by the FATF. With the approval of the evaluation of the Kingdom in February 2004G, all GCC member states have now undergone a mutual evaluation and the GCC first round of evaluations has been completed. The Mutual Evaluation Report Executive Summary dated 25 June 2010G determined that the Kingdom "is compliant or largely compliant with most of the FATF (…) Recommendations" (see FATF Annual Report 2003G-2004G, Annex C, Kingdom of Saudi Arabia dated 25 June 2010G: Executive Summary Mutual Evaluation Report for Anti-Money Laundering and Combating the Financing of Terrorism, Table 1).

3 - 5 - 8 External Auditors

As a measure of prudence, SAMA requires all Saudi Banks to be audited jointly by two external auditors.

3 - 5 - 9 Financial Requirements

SAMA has introduced regulations to ensure that Saudi Banks do not have disproportionate concentrations of risk in any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities. The most significant regulations are summarised below:

3 - 5 - 9 - 1 Doubtful and Past Due Loans/Loan Loss Reserves

SAMA applies regulations regarding the reclassification of assets as well as provisioning norms. The following table sets out currently applicable classifications and the reserves required for prudential regulation purposes.

Table 3-12 Currently applicable classifications and the reserves required for prudential regulation purposes

Classification	Defined as	Reserve Required
Current	No problems	1% of outstandings
IA (under observation)	Potential weakness	1% of outstandings
II (Substandard)	Inadequate capacity to pay and/or profit or principal overdue by more than 90 days	25% of outstandings
III (Doubtful)	Full collection questionable and/or overdue by more than 180 days	50% of outstandings
IV (Loss)	Uncollectible and/or overdue by more than 360 days	100% of outstandings

The provision is made by the relevant Saudi bank in its audited financial statements in accordance with the requirements of International Accounting Standard 39 (Financial Instruments: Recognition and Measurement). It is worth nothing that SAMA is in the process of revising such rules and has issued proposed rules and solicited comments from Saudi banks.

3 - 5 - 9 - 2 Liquidity

Saudi Banks are required to maintain a liquid reserve of at least 20% of their deposit liabilities. For the purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within thirty (30) days are included. The breakdown of call deposits, savings accounts and time deposits must also be shown on the balance sheet. The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk.

3 - 5 - 9 - 3 Capital Adequacy

SAMA has introduced a common standard for capital adequacy based on BIS capital adequacy standards. The SAMA standard applicable in the Kingdom recommends a minimum 8% ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also two levels of country risk, one is of low risk, while the second is of higher risk, the Kingdom falls within the low risk countries. The SAMA standard considers that the low risk countries include all the council member states as well as the member countries of the Organisation for Economic Cooperation and Development ("**OECD**") and others that have special lending arrangements with the International Monetary Fund under its general agreement relating to borrowing. Whereas the standard of BIS considers the Kingdom only, and not all of the GCC, as low risk country. The other major difference is that the SAMA standard accounts for mortgage loans as 100% risk as opposed to 50% under BIS standards.

Deposit liabilities of Saudi Banks are limited to fifteen (15) times capital and reserves. In cases where this ratio is exceeded, Saudi Banks have to place interest free deposits of half the excess amount with SAMA.

Furthermore, 25% of net profits have to be transferred to statutory reserves until the reserve balance equals paid-up capital.

SAMA has issued a number of circulars relating to the implementation in the Kingdom of the Basel Committee's proposed reforms in late 2010G in respect of capital adequacy requirements for banks (for further details, see "Basel III Framework").

3 - 5 - 10 Basel III Framework

In response to the global financial crisis which commenced in 2007G, the BCBS enhanced its capital measurement and capital standards by issuing the Basel III Framework. The Basel III Framework focuses on strengthening the quality of regulatory capital, raising the minimum capital requirements, enhancing risk coverage and reducing the impact of the economic cyclicality on the regulatory capital. It introduces new leverage and liquidity ratio requirements and capital buffers to promote the build-up of capital. These enhancements are to be implemented by means of a staggered approach up to 2019G.

Since 2011G, SAMA has introduced main standards for the Basel III Framework in accordance with the timelines approved by the BCBS. This includes the introduction of the leverage ratio in 2011G, the liquidity ratio in 2012G and the capital adequacy ratios in 2013G. The leverage and liquidity ratios are currently being monitored for Saudi Banks in accordance with SAMA's phase-in arrangements.

The Basel III Framework requires Saudi Banks' exposures to be backed by a high quality capital base. To this end, the predominant form of Tier 1 capital must be common shareholders' equity which is the highest "Loss Absorbent" through the following measures:

- improving the quality of Tier 1 Capital and increasing its minimum requirements;
- charging any withholdings from the regulatory capital to the common equity;
- the gradual cancellation of the mixed instruments which are (limited loss absorbents) of Tier 2 components of the regulatory capital; and
- increasing the levels of transparency through full disclosure of the components of the regulatory capital and comparing them to the shareholders' equity.

After completing the implementation of Basel III standards related to capital, the minimum requirements for the regulatory capital will be as follows:

- common Equity Tier 1 must be at least 4.5% of risk-weighted assets at all times;
- tier 1 Capital must be at least 6.0% of risk-weighted assets at all times; and
- total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0% of risk-weighted assets at all times.

While NCB continues to monitor the impact of each of the newly proposed standards, the impact on NCB of increasing the minimum capital requirements is expected to be limited, as NCB 's current capital base already exceeds the new requirements.

4. BUSINESS DESCRIPTION

4 – 1 Overview

In 1358H (1939G), Mr. Saleh Moussa Kaki, Mr. Abdulaziz Mohammed and Mr. Salim Ahmed Bin Mahfouz opened a currency exchange office. On 5/9/1369H (corresponding to 21 June 1950G). That office was then converted to a partnership among them in the name of "Saleh & Abdulaziz Al Kaki and Salem Bin Mahfouz" under registration certificate No. 48 ratified by Royal Decree dated 7/28/1369H (corresponding to 16 May 1950G) and under the instrument number 788 issued by the Mecca Notary Public and dated 9/5/1369H (corresponding to 21 June 1950G). The Company's articles of association were amended and the Company's name changed to become the "National Commercial Bank", as recorded before the Mecca Notary Public under number 1063 as of 8/8/1374H (corresponding to 1 April 1955G). The Company operated as a partnership registered in the Jeddah trade register under registration number 4030001588 dated as of 27/12/1376H (corresponding to 25 July 1957G) until it was converted into a Saudi joint stock company on 1 July 1997G by Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G) and registered under commercial registration No. 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G). NCB's head office is in Jeddah, Kingdom of Saudi Arabia.

The Group provides both conventional and *Shari'ah*-compliant banking services to its customers through its five principal operating segments which are: (i) Retail Banking, (ii) Corporate Banking, (iii) Treasury, (iv) Capital Markets (comprising the business of NCBC), and (v) International Banking (comprising the business of TFKB and the Beirut Branch) (see section 4-6 "*Business of NCB - Operating Segments*", section 4-2 *"Business of NCBC"* and section 4-12 *"Business of TFKB"*).

Conventional products offered by NCB include (among others) deposits, term loans, trade financing, structured products, cash management, foreign exchange and money remittance. The Islamic financing products offered by NCB span all business groups, including all retail products offered by NCB's branches since their conversion to Islamic banking in 2006G.

The primary Islamic structures used by NCB include *tawarruq*, *murabaha*, *ijara*, *istisna*, and *wakala*. These products are supervised by the independent *Shari'ah* Board (see section 4-7-17 "*Company Description and Nature of Business –Risk Governance Framework—Shari'ah Group*").

The Group also operates its business through its material subsidiaries which are (i) NCBC which conducts wealth management, asset management, brokerage and investment banking activities, and (ii) TFKB which is one of four "participation" (*Shari'ah*-compliant) banks in Turkey. Further details of each of these subsidiaries are set out in sections 4-11 "*Business Description – Business of NCBC"* and 4-12 "*Business Description – Business of TFKB"*.

According to the published financial statements of all of the banks licensed to provide banking services in the Kingdom as at 30 June 2014G, NCB was the largest bank in the Kingdom in terms of customers' deposits (345.5 billion Saudi Riyals) and total assets of 453.5 billion Saudi Riyals. As at 30 June 2014G, NCB was the largest bank in the Kingdom in terms of operational revenue. NCB's generated consolidated total operating income of 8.1 billion Saudi Riyals (compared to 4.3 billion Saudi Riyals as at 30 June 2013G) and consolidated net income of 5 billion Saudi Riyals (compared to 4.4 billion Saudi Riyals as at 30 June 2013G) (see section 6 "*Management's Discussion & Analysis of Financial Condition & Results of Operations*"). As at 30 June 2014G, NCB's total equity was 46.4 billion Saudi Riyals (compared to 42.5 billion Saudi Riyals as at 30 June 2013G) with a total capital ratio of 18.1% (compared to 17.5% as at 31 June 2013G) and a Tier 1 capital adequacy ratio of 15.5% (compared to 16.5% as at 31 December 2013G), each calculated in accordance with the Basel Committee Guidelines and SAMA Requirements.

As at 30 June 2014G, NCB operated the second largest banking sector branch network in the Kingdom, with 329 branches. NCB also operates two overseas branches (in Lebanon and Bahrain), as well as three representative offices overseas (in Singapore, Seoul and Shanghai). NCB's domestic branch network is supported by one of the Kingdom's largest networks of ATMs, POS terminals and remittance centres with 2,387 ATMs, 19,580 POS terminals and 60 remittance centres as at 30 June 2014G.

As at 30 June 2014G, NCB employed 7,331 staff (94.12% of which were Saudi nationals), and in respect of its material subsidiaries, NCBC has 233 employees, while TFKB has 4,397 employees.

NCB's head office is situated in Jeddah, Kingdom of Saudi Arabia and covers 11,212 square metres with a built-up area of 57,178 square metres over 26 floors. NCB owns the freehold title to its head office pursuant to title deeds numbered 2092 (dated 6/10/1390H, corresponding to 5 December 1970G) and 2209 which commenced construction in 1978G and became operational in 1983G.

4 – 1 – 1 Vision and Mission

NCB's vision is to become the premier financial services group in the region. NCB's strategy to achieve its vision is based on five aspirations:

(a) to be the number one bank by income;

(b) to be the number one bank by profits;

(c) to become the best bank providing electronic services;

(d) to become the best bank in customer services; and

(e) to become the bank employer of choice.

4 – 1 – 2 Capital Structure

NCB's current share capital is twenty billion (20,000,000,000) Saudi Riyals comprising two billion (2,000,000,000) Shares with a nominal value of ten (10) Saudi Riyals each, all of which are nominal and fully paid up. The Subscription involves existing Shares only and so there will be no change to the issued share capital of NCB as a result of the Subscription.

At the date of NCB's conversion to a Saudi joint stock company on 1 July 1997G, the incorporators who signed the Memorandum of Association of NCB subscribed for sixty million (60,000,000) Shares with a nominal value of 100 Saudi Riyals per Share in the capital of NCB, with a value of six billion (6,000,000,000) Saudi Riyals.

On 25/2/1427H (corresponding to 25 March 2006G), NCB's Extraordinary General Assembly approved the increase of NCB's Share capital from six billion (6,000,000,000) Saudi Riyals to nine billion (9,000,000,000) Saudi Riyals. This increase in share capital was funded by transferring funds from reserves to paid up capital.

On 7/3/1428H (corresponding to 26 March 2007G), NCB's Extraordinary General Assembly approved the increase of NCB's Share capital from nine billion (9,000,000,000) Saudi Riyals to fifteen billion (15,000,000,000) Saudi Riyals. This increase in share capital was funded by transferring funds from reserves to paid up capital.

On 30/05/1435H (corresponding to 31/3/2014G), NCB's Extraordinary General Assembly approved the increase of NCB's Share capital from fifteen billion (15,000,000,000) Saudi Riyals to twenty billion (20,000,000,000) Saudi Riyals through the issuance of one bonus Share for each three Shares owned by current Shareholders as at 30/05/1435H (corresponding to 31 March 2014G), with fractional Shares being consolidated and sold to Shareholders. Article 6 of the Bylaws was amended accordingly. The increase in share capital was funded by transferring five billion (5,000,000,000) Saudi Riyals from retained earnings as of 31 December 2013G. As of 17 August 2014G, all fractional shares were aggregated (resulting in 69 Shares) and sold, with the proceeds of the sale distributed to Shareholders who owned fractional shares in an amount proportional to their ownership in NCB's share capital.

As at the date of this Prospectus, NCB's largest Shareholder is the Government, which holds (through PIF, GOSI and PPA) 79.33% of NCB's issued share capital. All the Shares are in registered form.

On 16 September 2009G, NCB acquired from a customer as a result of a partial set-off of debt due to NCB from one of its customers (who owns a stake in NCB's Shares) four million twenty four thousand eight hundred and fifty two (4,024,852) of its own Shares, representing 0.27% of NCB's issued Shares at the time of their acquisition, for a total amount of one hundred and seventy seven million, ninety three thousand, and four hundred and eighty eight (177,093,488) Saudi Riyals. Following the recent distribution by NCB of bonus Shares to its Shareholders as a result of the capital increase approved by the Extraordinary General Assembly on 30/05/1435H (corresponding to 31 March 2014G), the number of Treasury Shares has increased and, as at the date of this Prospectus, NCB holds five million three hundred and sixty six thousand four hundred and sixty nine (5,366,469) Treasury Shares. NCB's holding of Treasury Shares has been approved by MOCI and SAMA subject to the condition that the Treasury Shares must be sold by NCB on the open market within one year from the date on which the Shares become publicly traded. NCB will make an announcement through Tadawul upon completing the sale of the Treasury Shares.

4 – 1 – 3 Shareholding Structure and Overview of Substantial Shareholders

The table below sets out the details of NCB's Shareholders showing their respective ownership percentages in NCB's issued share capital as at the date of this Prospectus and after the Subscription:

Table 4-1 Shareholders' respective ownership percentages in NCB's issued share capital as at the date of this Prospectus and after the Subscription

	Number of Shares*****		Percentage of Ownership******	
	Pre-Subscription	Post-Subscription	Pre- Subscription	Post- Subscription
PIF*	1,385,893,333	885,893,333	69.29%	44.29%
GOSI*	200,000,000	200,000,000	10.00%	10.00%
PPA**	874,765	200,874,765	0.04%	10.04%
Saudi individuals ***	376,774,382	676,774,382	18.84%	33.84%
Saudi companies and institutions****	36,457,520	36,457,520	1.82%	1.82%
Total	2,000,000,000	2,000,000,000	100.00%	100.00%

* Denotes Substantial Shareholders for the purpose of the Listing Rules.

** Two hundred million (200,000,000) of the Subscription Shares, representing 10% of NCB's share capital will be allocated for direct subscription by the PPA at the Subscription Price.

*** None of whom owns a stake that equals 5% or more of NCB's issued share capital.

**** None of whom owns a stake that equals 5% or more of NCB's issued share capital, and these Shares include the Treasury Shares.

***** These Shares include Qualification Shares.

****** Although the number of shares in the table above is accurate, rounding the percentage of ownership to two decimal places results in a total of 99.99%.

PPA

The PPA was established as the "pension salary administration" in 1378H (corresponding to 1958G) pursuant to Article 8 of the Pension Regulation of 1378H (corresponding to 1958G). Ministerial Cabinet Resolution No. 277 dated 30/12/1424H (corresponding to 21 February 2004G) converted the administration into a public authority with a separate legal personality, an independent budget and independent financial administration and management. The cabinet resolution also renamed the administration the 'Public Pension Authority'. According to Article 2 of Ministerial Cabinet Resolution No. 3 dated 3/1/1425H (corresponding to 23 February 2004G), the PPA is a public entity characterized by its independent management, finance and budget although it is connected to the Ministry of Finance through its chairman, His Excellency the Minister of Finance. The PPA is tasked with providing an income for retirees of the public sector, both civilian and military, in addition to their dependants after the end of their public service, in accordance with the pension regulations and the principles of social public participation. The PPA is headquartered in Riyadh.

GOSI

GOSI was established pursuant to the Social Insurance Law (Royal Decree No. M/22 dated 6/09/1389H (corresponding to 15 November 1969G), as amended) (the "**Social Insurance Law**") to implement the provisions of the Social Insurance Law and process compulsory insurance coverage, collect contributions from employers and pay benefits for eligible contributors or their family members. GOSI is a quasi-state entity that has administrative and financial independence. GOSI operates from its head office in Riyadh and has 21 field offices located in a number of regions and governorates in the Kingdom. GOSI is currently paying more than 1.2 billion Saudi Riyals in monthly pensions to over 300,000 beneficiaries.

PIF

PIF was established by Royal Decree No. M/24, dated 25/06/1391H (corresponding to 17 August 1971G). The purpose of establishing PIF was to provide financing support to (i) cash generative commercial projects, are strategically significant for the development of the Kingdom's economy and are implemented by government-related companies and entities; and (ii) to projects jointly owned by the public and private sectors. Pursuant to Ministerial Cabinet Resolution No. 508 dated 02/04/1394H (corresponding to 2 May 1974G), PIF was assigned an explicit role in investing and holding equity participations on behalf of the Government in joint stock companies and in administering such participations on its behalf and representing it in respect thereof.

4 – 1 – 4 Ratings

As at the date of this Prospectus, NCB's long-term corporate ratings were assessed A+ (stable) by S&P and Fitch (both since 2007G), AA- by Capital Intelligence and A1 (stable) by Moody's.

4 – 2 Competitive Strengths

There are several aspects to NCB's business and product offerings which, in the view of Senior Management, give NCB key competitive advantages in the markets in which it operates. These competitive strengths include:

4 – 2 – 1 Brand Equity

NCB is a well-established brand in the Kingdom, with a 60 year heritage of providing banking services to its customers. NCB has achieved success in the commercial banking sector in the Kingdom, where it currently ranks as the largest bank in the Kingdom in terms of customers' deposits and total assets. NCB's reputation is augmented by its strong sense of corporate social responsibility for which it has received a number of awards, including the 2013G Saudi CSR Award for Companies from the Jeddah Chamber of Commerce and the 2012G CSR Award from Prince Turki Bin Nasser (see section 4-8-5 "*Company Description and Nature of Business – Support Function – Shared Services Group – Awards*").

4 – 2 – 2 Broad distribution

NCB has the second largest banking sector branch network in the Kingdom (with 329 branches as at 30 June 2014G) and has strong ADCs, such as ATMs, telephone and internet banking, mobile phone systems, smart phone and tablet Apps and SMS messaging, which enable it to service its existing customer base and attract new customers.

4 – 2 – 3 Comprehensive product offering

One of NCB's strengths is its ability to offer its customers a wide range of products and services across its operating segments. NCB's *Shari'ah* Group, in particular, has previously launched innovative Islamic products, including the world's first Islamic credit card and the world's first Islamic automobile leasing product.

4 – 2 – 4 Large, stable customer base

NCB has an existing customer base of over 2.9 million customers as at 30 June 2014G, which provides NCB with access to a large and stable deposit base with a variety of maturity and re-pricing profiles. NCB is able to exploit this strong customer base to cross-sell products and services through its subsidiaries, including NCBC, and through ATC.

4 – 2 – 5 Strong capitalisation and liquidity position

NCB's Tier 1 capital ratio and total capital ratio are strong, at 15.5% and 18.1%, respectively, as at 30 June 2014G. NCB's total capital adequacy ratio exceeds the minimum capital adequacy ratio imposed by SAMA and remains ahead of the Basel III regulatory requirements of 8% of risk-weighted assets. Furthermore, NCB benefits from a strong liquidity position, with a relatively low loan to deposit ratio of 59.7% as at 30 June 2014G (compared to 61.9% as at 30 June 2013G). The strength of its balance sheet and its robust capital and liquidity position give NCB operational and financial flexibility and enable it to strive towards optimising its return on equity.

4 – 2 – 6 Experienced management team

NCB has a strong management team with extensive knowledge of the banking sector in the Kingdom and the MENA region and significant experience in leading international financial institutions. The members of the Senior Management have an average tenure of 11 years with NCB and 19.7 years in the banking industry. NCB also undertakes a careful succession planning process for all Senior Management and key staff positions. Senior Management believes that NCB's strong and experienced management (coupled with its robust risk management systems and procedures) have played an important role in enabling NCB to remain profitable and continue recording positive growth (both in terms of income and NCB's balance sheet) during an unsettled global economic climate, delivering value for its Shareholders as well as its customers and other stakeholders.

4 – 2 – 7 Government ownership and support

The Government, indirectly through PIF, GOSI and PPA owns 79.33% of NCB's Shares as at the date of this Prospectus, and a significant proportion of NCB's deposits have been made by the various Government and/or its departments or agencies. NCB's Senior Management believes that the Government's interests in NCB enhance NCB's reputation as a stable and secure institution with which to do business, for both retail depositors and corporate customers, as well as other counterparties.

4 – 3 Strategy

NCB's vision is to become the premier financial services group in the region. Its strategy to achieve this is based on the priorities mentioned in section 4-1-1 (*Vision and Mission*):

In furtherance of these aspirations, NCB has identified the following key strategic initiatives:

4 – 3 – 1 New Operating Model

In line with its strategy to become the region's best digital bank in providing electronic services, NCB is investing heavily in new core banking systems to further modernise its technology platform and data centre (NCB estimates that it will invest around one billion Saudi Riyals in upgrading its technological network and data centre within the coming three years) in addition to ensuring reliable systems that have the ability to meet variable demand. NCB's aim is to improve customer experience and channel productivity as well as to reduce overall IT and operational costs. To achieve this major core banking system, replacement programme was launched in 2013G (see section 4-8-1-1 "*Company Description and Nature of Business – Support Function – Shared Services Group – Information Technology Division*"). NCB aims to attract young customers who have a high usage of digital channels by providing an increasing number of products and services through digital channels.

4 – 3 – 2 Upgrading and Expansion

NCB plans to continue expanding its network of branches. In the six month period up to 30 June 2014G, 7 new branches have been opened by NCB (and approximately 21 new NCB branches and 43 new Quick Pay centres are planned to be opened in total in 2014G). NCB also plans to enhance the design and layout of its branches to improve efficiency and effectiveness of service to, and deepen its relationship with, all customer segments.

NCB is also expanding the number of ATMs and remittance centres that it operates within the Kingdom, together with developing the provision of more services through eBanking, Mobile and ATMs. Through these initiatives, NCB aims to improve customer access and experience, while at the same time encouraging service-based transactions to be conducted through digital channels.

4 – 3 – 3 Broaden Market Penetration

NCB has been at the forefront in responding to the Kingdom's new real estate finance legislation, from supporting real estate developers undertaking housing projects, to enhancing its RF offering for young Saudis who wish to purchase their own home. NCB is particularly focused on continuing to increase its presence in the small and medium-sized enterprises ("**SME"**) sector and, in particular, will continue to support the Government's drive to develop SME businesses. NCB has been the largest lender through Kafala, the Government's loan guarantee programme that provides direct financial support for SMEs (for further details, see section 4-6-2-2d) "*Company Description and Nature of Business – Business of NCB - Operating Segments – Corporate – Corporate Banking*"), providing approximately 32% of the total Kafala funds to more than 4,000 companies. NCB also plans to increase its penetration in under-served/remote areas in the Kingdom.

4 – 3 – 4 Improve Cost Efficiency

NCB is focused on reducing its operating costs while increasing the productivity of its resources and processes by implementing effective expense management systems, with a particular focus on communication and IT. Significant cost savings in IT operations have already been realised. NCB's overall IT efficiency improved significantly during 2013G, with the replacement of its core switches and firewalls being completed as part of an upgrading programme for the branch communications network that commenced in 2010G. This contributed to a reduction in communication outages across NCB's branch network, improving stability of branch services and a halving of incidents related to the IT disruption, as well as boosting ATM service availability. NCB has also undertaken a major program of vendor and cost optimisation in 2013G and 2014G. This programme has resulted in over 173 million Saudi Riyals of on-going savings in annual operating costs for NCB. NCB plans to capitalise on these initiatives to increase productivity and achieve further savings by 2015G.

4 – 3 – 5 Innovation

In order to pursue its aspirations, NCB understands the importance of developing innovative new products and services to broaden its market penetration and target new customer segments as the financial services industry develops. For example, NCB increased its market share in the growth sector of *Shari'ah*-compliant banking through the development of three innovations that have become standards in the field: *tawarruq* (a widely used methodology which enables customers to obtain cash financing), *Shari'ah*-compliant credit cards, and the *Shari'ah* screening criteria for investing in non-local equities. NCB also offered its customers the first *Shari'ah*-compliant AL program whereby NCB purchases a car on behalf of the customer, in return for periodic rental payments and the eventual sale of the car by NCB to the customer at the end of the lease period. The introduction of innovative *Shari'ah*-compliant products and procedures enables NCB to broaden its offering of Islamic solutions to its customers. Also, through the development of "QuickPay", NCB was one of the first banks in the Kingdom to provide 24 hour, 7 days a week access to money transfer services without having to physically visit a remittance centre. NCB plans to continue to pursue an innovative approach to financial services in the markets in which it operates in order to broaden its customer base and enhance the services to its customers.

4 – 4 History of NCB

In 1358H (1939G), Mr. Saleh Moussa Kaki, Mr. Abdulaziz Mohammed and Mr. Salim Ahmed Bin Mahfouz opened a currency exchange office. On 5/9/1369H (corresponding to 21 June 1950G). That office was then converted to a partnership among them in the name of "Saleh & Abdulaziz Al Kaki and Salem Bin Mahfouz" under registration certificate No. 48 ratified by Royal Decree dated 7/28/1369H (corresponding to 16 May 1950G) and under the instrument number 788 issued by the Mecca Notary Public and dated 9/5/1369H (corresponding to 21 June 1950G). The Company's articles of association were amended and the Company's name changed to become the "National Commercial Bank", as recorded before the Mecca Notary Public under number 1063 as of 8/8/1374H (corresponding to 1 April 1955G). The Company operated as a partnership registered in the

Jeddah trade register under registration number 4030001588 dated as of 27/12/1376H (corresponding to 25 July 1957G) until it was converted into a Saudi joint stock company on 1 July 1997G by Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G) and registered under commercial registration No. 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G). NCB's head office is in Jeddah, Kingdom of Saudi Arabia.

In 1990G, NCB embarked upon a major rationalisation programme, which involved an increase in capital, a reduction of its workforce and a reorganisation of its core banking businesses. In addition, a major upgrade of NCB's IT infrastructure took place with the opening of a new computer centre in Jeddah and a new dealing room for NCB's Treasury Group, which was the largest in the Middle East at the time.

In May 1999G, the Government, through PIF, acquired a 50% stake in NCB together with management control from the Bin Mahfouz family (which had previously owned 98% of NCB). During that year, the Government, through PIF, sold a 10% stake in NCB to GOSI and a new management team was appointed to run NCB after the resignation of Khalid Bin Mahfouz as Chairman and General Manager of NCB. The new Board approved a comprehensive review of NCB's outstanding loan portfolio and increased provisions for NPLs. Accordingly, new loan loss provisions were approved which caused NCB to record a significant loss for the 1999G financial year. This, in turn, led the Board at that time to approve a Senior Management recommendation to forego the distribution of any dividend payments to NCB's Shareholders until NCB's Shareholders' equity reached the same amount as at 31 December 1998G (which occurred in 2002G).

In late 2001G, the remaining Shares of NCB still owned by the Bin Mahfouz family were purchased by the Government (through PIF) and other Saudi nationals and companies established in the Kingdom, which increased the Government's ownership stake in NCB to 79.29%, consisting of 69.29% owned by PIF, and 10% owned by GOSI.

In 2002G, NCB achieved profits of 2.43 billion Saudi Riyals which covered the accumulated losses from 1999G. Shareholder equity increased to levels higher than in 1998G (8.028 billion Saudi Riyals), reaching 8.918 billion Saudi Riyals.

In 2004G, NCB announced that it would make its entire branch network in the Kingdom *Shari'ah*-compliant. Since 2006G, all products offered through NCB's been have been *Shari'ah*-compliant. In addition, each of the CBG and the Treasury Group offers both *Shari'ah*-compliant products and conventional products.

In 2006G, the corporate banking segment was reorganised to align NCB's operating segments with key customer segments. In addition, new dedicated units were formed for specialised lending and cash management.

In December 2006G, NCB formed ATC, a listed company on the Tadawul, which provides takaful insurance products and services in the Kingdom (see section 4-9 "*Company Description and Nature of Business – Subsidiaries and Associates*").

In 2007G, in order to comply with new requirements enacted by the CMA, NCB incorporated NCBC as a subsidiary. NCB then transferred its wealth management, asset management, brokerage, and investment banking activities to NCBC. On 30 June 2014G, NCB owned a direct share of 90.71% in NCBC. The Capital Markets segment as reported in the Group's financial statements refers to NCBC's activities (see section 4-12 "*Company Description and Nature of Business – Business of NCBC*").

In March 2008G, NCB acquired a controlling interest of 60% in TFKB, a Turkish participation bank. This equity stake has since been increased by NCB to 66.27% as at 30 June 2014G through additional capital subscriptions (see section 4-12 "*Company Description and Nature of Business – Business of TFKB*").

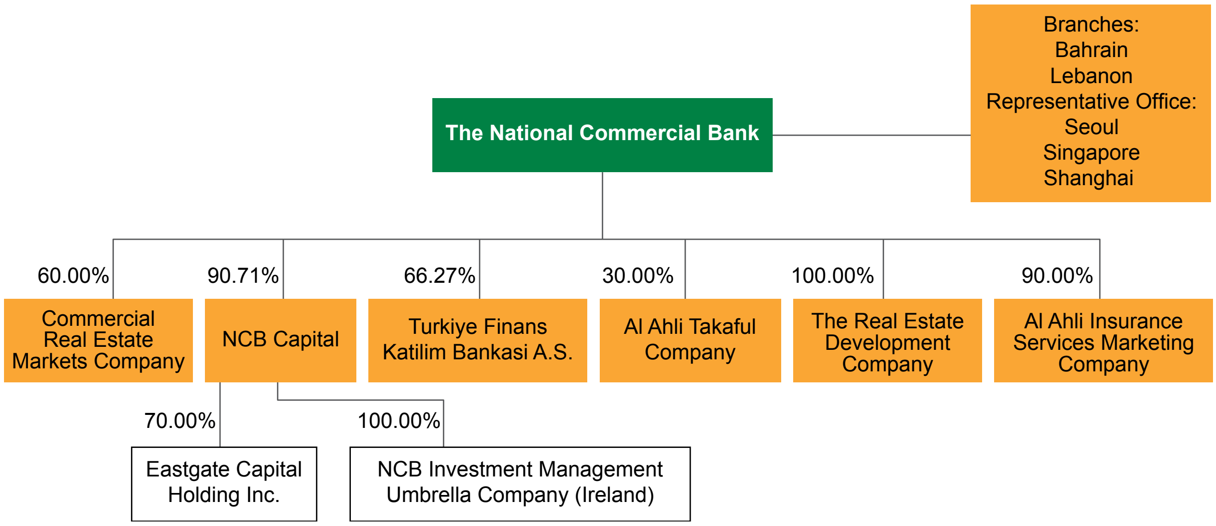
The global financial crisis of 2008G resulted in an increase in defaults by corporate customers of NCB. According to figures published by SAMA, total bad loans of listed banks in the Kingdom increased from 1.1% as at 31 December 2008G to 3.2% as at 31 December 2009G. The Group's ratio of NPLs also increased by 2.2% from 2.4% as at 31 December 2008G to 4.6% as at 31 December 2009G. As at 30 June 2014G, the Group had an NPL ratio of 1.36% and an NPL coverage ratio of 179%.

In August 2013G, NCB announced a new organisational structure for the Group, as a result of which (among other changes) two new groups were formed: the RBG and the Strategy & Business Development Group (see sections 4-6-1 "*Company Description and Nature of Business – Business of NCB – Operating Segments – Retail*" and 4-8-1 "*Business Description and Nature of Business – Support Function – Strategy and Business Development Group*"). The aim of the reorganisation was to facilitate the execution of NCB's strategy.

4 – 5 Group Structure

The following chart sets out details of NCB, its subsidiaries, associates, branches and representative offices as at the date of this Prospectus. Percentage figures refer to NCB's direct ownership share.

Chart 4-2 Details of NCB, its subsidiaries, associates, branches and representative offices as at the date of this Prospectus



Source: NCB

*As at 30 June 2014G, NCB had a 66.82% indirect ownership interest (through the Group) in Eastgate Capital Holdings Inc. ("Eastgate"), and NCB Capital Company has a 70.0% direct ownership interest. NCBC and Eastgate have formed the following fund companies:

- Oryx MENA Direct Equity Fund BSC Closed
- Oryx Regional Equity Fund
- Eastgate Pharmaceuticals Fund I GB Co.
- Eastgate Imperial Investment GB Co.
- Eastgate GB Co.
- Eastgate Industry Fund GB Co.
- Eastgate Real Estate Income Fund GB Co.
- Eastgate MENA Fund GB Co.
- Eastgate Capital Group Limited.

In addition, TFKB established the following special purpose vehicles in connection with the issuance of *Sukuk*:

- TF Varlık Kiralama Anonim Şirketi.
- TFKB Varlık Kiralama Anonim Şirketi.

NCBC is the largest investment company authorised by the CMA in the Kingdom by assets of investment funds according to data published by the Tadawul. Having originated from an established bank in the Kingdom, NCBC enjoys close relationships with a wide base of large corporations, individuals and government entities, giving NCBC a strong placement capability.

As at 30 June 2014G, NCBC's shareholding structure was as follows:

Table 4-3 NCBC's shareholding structure as at 30 June 2014G

Name	Nationality	Number of Shares	Shareholding
Abdulkareem As'ad Abu Alnasr*	Saudi	1,000	0.001%
The National Commercial Bank	Saudi Company	90,703,060	90.71%
Faisal Omar Al Sakkaf*	Saudi	1,000	0.001%
Hany Ahmad AlShuwaier*	Saudi	1,000	0.001%
BACO W.L.L.	Bahraini Company	9,287,940	9.287%

Source: NCB

* These individuals hold shares in their capacity as founding Shareholders of NCBC. NCBC is currently in the process of transferring such shares to NCB.

TFKB operates as a participation bank in Turkey. Such banks work in accordance with the principles of interest-free banking, by collecting funds through current accounts and profit sharing accounts, and lending such funds through production support, finance leases and profit/loss sharing partnerships.

As at 30 June 2014G, TFKB's shareholding structure was as follows:

Table 4-4 TFKB's shareholding structure as at 30 June 2014G

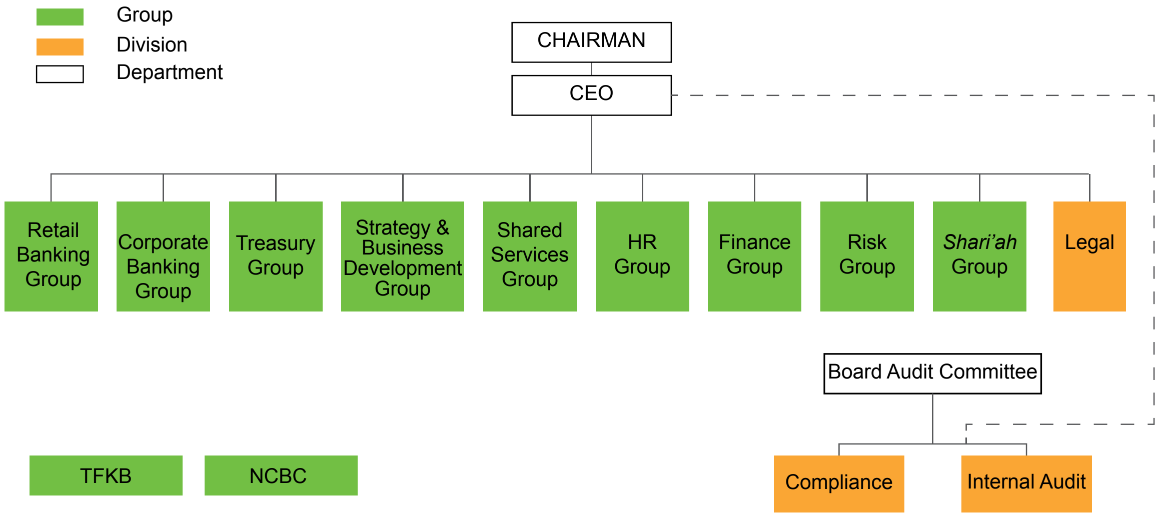
Name	Nationality	Number of Shareholders	Number of Shares	Shareholding
NCB	Saudi company	1	1,176,369,401	66.2743%
Boydak Group	Turkish persons and companies	35	392,123,148	22.0914%
Gozde Girisim Sermayesi Yatırım Ortaklıgı AS (Ulker Group)	Turkish company	1	205,405,382	11.5721%
Other Shareholders	Turkish persons and companies	103	1,102,069	0.0621%

Source: NCB

NCB is made up of various Groups, Divisions, Departments and Sections. The Group's business function is comprised of five operating segments from which the Group earns revenues and incurs expenses being Retail Banking, Corporate Banking, Treasury, International Banking and Capital Markets. These operating segments are enhanced by support functions which include the Strategy and Business Development Group, the Shared Services Group, the HR Group, the Finance Group, the Risk Group, the *Shari'ah* Group, the Legal Division, the Compliance Division and the Internal Audit Division.

The following chart sets out the internal organisational structure of NCB (excluding its subsidiaries and associates) as at the date of this Prospectus:

Chart 4-5 Internal organisational structure of NCB (excluding its subsidiaries and associates)



Source: NCB

4 – 6 Business of NCB – Operating Segments

The main business component of the Group has five reportable operating segments, as described below. The five operating segments offer different products and services to NCB's customers, and are managed separately based on NCB's management and internal reporting structure.

Table 4-6 Operating segments

Retail Banking	Provides banking services to individuals and small enterprises and Private Banking Customers, including lending and current accounts in addition to Shari'ah-compliant products which are supervised by the independent Shari'ah Board.
Corporate Banking	Provides banking services to SMEs and large establishments and companies, including all conventional credit-related products and Shari'ah-compliant financing products. In addition, it includes Bahrain Branch operations (in partnership with the Treasury segment) and the representative offices (Seoul, Singapore, and Shanghai).
Treasury	Provides a full range of treasury products and services to NCB's clients, including money market and foreign exchange, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).
Capital Markets	Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international). The Capital Markets segment comprises the operations of NCBC.
International Banking	Comprises the operations of TFKB and the Beirut branch.

The following tables set out the assets, liabilities and net income for each of these operating segments as at the dates and for the periods indicated:

Table 4-7 Assets, liabilities and net income for each operating segment – Six months ended 30 June 2014G

	Six months ended 30 June 2014G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Total assets	84.929.3	116.345.5	180.693.7	1.314.4	52.247.1	435.530.0
Total liabilities	151.898.8	169.359.8	23.301.3	186.7	44.429.0	389.175.6
Fee income from banking services, net	523.4	544.5	-	373.2	274.3	1.715.3
Operating income	2.840.0	1.826.4	1.990.1	393.6	1.029.4	8.079.4
Operating expenses	2.182.5	(229.7)	264.5	177.4	791.9	3.186.5
of which:						
Depreciation of property and equipment	149.9	24.6	16.3	9.4	44.6	244.8
Impairment charge for investment losses, net	630.1	(621.3)	-	-	105.1	113.9
Impairment charge on credit, net	-	-	84.7	13.2	-	97.8
Net income (Bank shareholders and non-controlling interests)	603.6	2.381.4	.1.649.9	.203.7	195.9	5.034.4
As a percentage of the total						
Total assets	19.5%	26.7%	41.5%	0.3%	12.0%	100.0%
Total liabilities	39.0%	43.5%	6.0%	0.0%	11.4%	100.0%
Net Income (Bank shareholders and non-controlling interests)	12.0%	47.3%	32.8%	4.0%	3.9%	100.0%

Table 4-8 Assets, liabilities and net income for each operating segment – Six months ended 30 June 2013G

	Six months ended 30 June 2013G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Total assets	71.599.5	101.796.9	146.789.1	1.204.7	41.406.0	362.796.3
Total liabilities	142.586.7	126.220.2	18.107.0	219.3	34.040.7	321.173.9
Fee income from banking services, net	543.7	507.4	-	310.8	289.7	1.651.7

	Six months ended 30 June 2013G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Operating income	2.694.4	1.708.8	1.916.8	328.5	1.117.2	7.765.7
Operating expenses	1.644.9	456.3	196.6	203.6	798.2	3.299.6
of which :						
Depreciation of property and equipment	146.8	25.2	15.8	8.0	36.4	232.2
Impairment charge for Investment losses, net	169.4	90.3	-	-	156.2	415.9
Impairment charge for credit losses, net	-	-	22.2	-	-	22.2
Net income (Bank shareholders and non-controlling interests)	1.078.3	1.248.7	1.727.8	129.3	220.9	4.405.0
As a percentage of the total						
Total assets	19.7%	28.1%	40.5%	0.3%	11.4%	100.0%
Total liabilities	44.4%	39.3%	5.6%	0.1%	10.6%	100.0%
Net Income (Bank shareholders and non-controlling interests)	24.5%	28.3%	39.2%	2.9%	5.0%	100.0%

Table 4-9 Assets, liabilities and net income for each operating segment – Year ended 31 December 2013G

	Year ended 31 December 2013G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Total assets	75.283.3	102.655.40	151.186.1	1.217.9	46.937.6	377.280.3
Total liabilities	147.537.3	132.618.8	17.382.0	262.1	36.943.9	334.744.2
Fee income from banking services, net	862.9	1.011.4	-	575.4	568.9	3.018.7
Operating income	5.310.8	3.392.1	3.387.8	604.6	2.167.7	14.862.9
Operating expenses	3.503.3	801.6	364.3	402.7	1.565.4	6.637.3
of which :						
Depreciation of property and equipment	297.1	48.8	32.5	21.9	77.6	477.9

	Year ended 31 December 2013G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Impairment charge for investment losses, net	451.0	107.1	-	-	237.3	795.3
Impairment charge for credit losses, net	-	-	29.9	105	-	40.4
Net income (Bank shareholders and non-controlling interests)	1.854.1	2.594.6	3.033.2	111.5	395.6	7.988.0
As a percentage of the total						
Total assets	20.0%	27.2%	40.1%	0.3%	12.4%	100.0%
Total liabilities	44.1%	39.6%	5.2%	0.1%	11.0%	100.0%
Net Income (Bank shareholders and non-controlling interests)	23.2%	32.5%	38.0%	1.4%	5.0%	100.0%

Table 4-10 Assets, liabilities and net income for each operating segment – Year ended 31 December 2012G

	Year ended 31 December 2012G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Total assets	61.736.7	89.335.1	150,529.4	1.203.6	42.368.6	345.320.1
Total liabilities	136.217.6	115.708.4	20.626.3	251.8	33.111.9	305.916.0
Fee income from banking services, net	867.2	712.0	—	757.4	666.2	3.002.8
Operating income	5.138.1	2.182.8	3.233.1	772.4	2.276.7	13.603.1
Operating expenses	2.896.0	1.553.8	327.5	416.0	1.540.2	6.733.5
of which :						
Depreciation of property and equipment	265.2	38	28.5	16.6	65.9	414.2
Impairment charge for Investment losses, net	203.9	885.6	-	-	346.5	1,436.0
Impairment charge for credit losses, net	-	-	-	-	-	-

	Year ended 31 December 2012G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Net income (Bank shareholders and non-controlling interests)	2.266.6	584.9	2.842.4	344.5	575.0	6.613.3
As a percentage of the total						
Total assets	17.9%	25.9%	43.6%	0.3%	12.3%	100.0%
Total liabilities	44.5%	37.8%	6.7%	0.1%	10.8%	100.0%
Net Income (Bank shareholders and non-controlling interests)	34.3%	8.8%	43.0%	5.2%	8.7%	100.0%

Table 4-11 Assets, liabilities and net income for each operating segment – Year ended 31 December 2011G

	Year ended 31 December 2011G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Total assets	51,965,7	77,884,2	138,978,0	1,246,1	31,124,2	301,198,21
Total liabilities	130,459,8	91,220,5	18,023,0	261,5	25,648,1	265,612,9
Fee income from banking services, net	830,5	557,8	—	498,7	595,1	2,482,1
Operating income	4,756,1	2,010,0	3,001,9	520,9	1,844,7	12,133,6
Operating expenses	2,747,6	973,9	332,1	406,4	1,334,8	5,794,8
of which :						
Depreciation of property and equipment	190.8	41.3	32.1	18.9	63.3	352.4
Impairment charge for investment losses, net	412.2	400	-	-	221.1	1,4360
Impairment charge for credit losses, net	-	-	2	19	-	22
Net income (Bank shareholders and non-controlling interests)	2,022,1	981,7	2,606,8	131,9	363,7	6,106,1
As a percentage of the total						
Total assets	17.3%	25.9%	46.1%	0.4%	10.3%	100.0%
Total liabilities	49.1%	34.3%	6.8%	0.1%	9.7%	100.0%

	Year ended 31 December 2011G					
	Retail Banking	Corporate Banking	Treasury	Capital Markets	International Banking	Total
	(SAR million)					
Net Income (Bank shareholders and non-controlling interests)	33.1%	16.1%	42.7%	2.2%	6.0%	100.0%

Further information on each of these operating segments is provided in the following sections.

4 - 6 - 1 Retail Banking

The RBG provides products and services to clients through a number of divisions and departments. It also manages NCB's core distribution channels through its Branch Banking and Digital Banking functions. The RBG also develops consumer finance products and provides account and deposit services through its Consumer Finance division and the bank's department of accounts and deposits. The RBG also caters to the needs of the Kingdom's expatriate labour market through its growing remittance business which is offered through standalone branded centres called "*Quick Pay*". The Leasing function of the RBG offers AL programs which are made available through an increasing network of car dealers. Since 2006G, *Shari'ah* principles have been applied to all business conducted through NCB's branches.

NCB's retail customer base has grown to over 2.9 million customers as at 30 June 2014G from 2.8 million as at 31 December 2013G, and NCB had a 17.6% share of the retail loan market in the Kingdom as at 30 June 2014G. NCB's domestic branch network, which consists of 329 branches, is supported by one of the Kingdom's largest networks of ATMs and remittance centres with 2,387 ATMs and 60 remittance centres as at 30 June 2014G.

The total assets of the RBG as at 30 June 2014G were 84.929 billion Saudi Riyals, representing 19.5% of NCB's total assets (compared to 19.7% as at 30 June 2013G and 20% and 17.9% as at 31 December 2013G and 2012G, respectively).

The operating income of the RBG for the six month period up to 30 June 2014G was 2.840 billion Saudi Riyals, representing 35.2% of the Group's total operating income (compared to 34.7% for the six months ended 30 June 2013G and 35.7% and 37.7% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

The net income of the RBG for the six month period up to 30 June 2014G was 0.604 billion Saudi Riyals, representing 12% of the Group's net income (compared to 24.5% for the six months ended 30 June 2013G and 23.2% and 32.3% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

4 - 6 - 1 - 1 Customer Classification

NCB's marketing strategy for Retail Banking is based on segmentation of the market and matching particular products to the corresponding market segment. The three principal segments are:

1. *Personal Banking* for customers with personal financial assets of less than 100,000 Saudi Riyals ("**Personal Banking Customers**"). NCB provides a range of *Shari'ah*-compliant products and services to its Personal Banking Customers including current accounts. As at 30 June 2014G, the RBG had approximately 2.65 million Personal Banking Customers (2.5 million as at 30 June 2013G), being 92% of NCB's total customers.
2. *Retail Banking* for customers with personal financial assets of between 100,000 Saudi Riyals and 5,000,000 Saudi Riyals ("**Affluent Banking Customers**"). NCB provides Affluent Banking Customers with priority services in its "*Wessam Lounges*", an exclusive lounge within many of NCB's branches. Products targeted to Affluent Banking Customers include credit cards, *takaful* insurance, mutual funds and real estate finance. These products and services are provided by a dedicated relationship manager, who caters to the customers' overall personal banking and investment needs. As at 30 June 2014G, the RBG had approximately 200,000 Affluent Banking Customers (approximately 200,000 as at 30 June 2013G) being 7% of NCB's total customers.

3. *Private Banking* for customers with personal financial assets greater than 5,000,000 Saudi Riyals ("**Private Banking Customers"**). This segment was established in 1994G and offers personalised banking services to high net worth individuals. It also seeks to utilise its strong relationships with Private Banking Customers to cross-sell the other Group products, in particular Treasury and NCBC products. As at 30 June 2014G, NCB had approximately 4,800 Private Banking Customers (4,600 as at 30 June 2013G) being 0.2% of NCB's total customers.

4 - 6 - 1 - 2 Strategy and Competition

Commencing in 2013G, the RBG pursued the following 4 strategic initiatives in order to grow its revenue faster than the other competing banks in the Kingdom:

- expand NCB's distribution network by growing market share of bank branches in the Kingdom, accessing the continued growth in the remittance market and growing NCB's ATM network;
- upgrading NCB's sales and services model by increasing sales productivity by up to 50% and increasing service productivity by reducing customer waiting times by up to 30%;
- redesigning NCB's branches, thereby improving the customer experience and introducing increasing levels of digital services in NCB's branches; and
- by expanding the range of products and services offered to Retail Banking customers.

Personal banking is highly competitive in the Kingdom, with NCB's main competitors being Al Rajhi Bank, Arab National Bank, Riyadh Bank and The Saudi British Bank. NCB, however, distinguishes itself from its competitors through its reach, product development expertise, solid balance sheet, brand value, customer loyalty and holistic approach to providing banking services across all client segments and businesses (see section 4-2 "*Company Description and Nature of Business – Competitive Strengths*").

NCB is one of the leading providers of PF in the Kingdom in an increasingly competitive market, with a market share of personal lending in the Kingdom of approximately 17.8% as at 31 December 2013G, while the market share for the closest competitor of NCB is 36.9% for Al Rajhi Bank, and 9.7% for Riyadh Bank.

4 - 6 - 1 - 3 Functions within the RBG

The products and services offered to retail customers by the RBG are provided through a range of different divisions and departments, namely Branch Banking, Private Banking, Quick Pay, Consumer Finance, Digital Banking, Leasing, Business Support and Liabilities & Bank Assurance Services. A description of each function is set out below:

A. Branch Banking

As at 30 June 2014G, NCB had 329 branches in the Kingdom, the second largest banking sector branch network in the Kingdom and which represented a market share in the Kingdom of 17.7%. Since 2006G, NCB's branches have offered only *Shari'ah*-compliant products and services. Each branch works with NCB's other groups, including the *Shari'ah* Board, to ensure a consistent approach to services and products and to expand cross-selling opportunities for *Shari'ah*-compliant products across NCB.

NCB believes that there is a significant distribution gap in the Kingdom and therefore plans to broaden its geographic reach by opening more branches throughout the Kingdom.

Retail customer deposits are an important source of funding for NCB. Total customer deposits increased by 57.6 billion Saudi Riyals, or 20%, to 345.6 billion Saudi Riyals as at 30 June 2014G from 288 billion Saudi Riyals as at 30 June 2013G. As at 30 June 2014G, 80.5% of retail customer deposits were denominated in Saudi Riyals and 19.5% in other currencies. NCB offers a wide range of transactional deposit accounts to its customers, including current accounts, savings accounts and Khayrat deposits.

1. Current Accounts

NCB offers its Personal Banking Customers a current account, with no minimum balance or fees, 24-hour access to Al Ahli Online, Al Ahli Mobile and Al Ahli Phone Banking, a free globally accepted ATM card, a free cheque book, free monthly statements and free SMS messaging services.

2. Khayrat Account

NCB offers its customers Khayrat Al Ahli which is an investment product based on the principles of *Murabaha* and is *Shari'ah*-compliant. The customer purchases commodities which are then sold to NCB at an agreed price (including profits) to be settled at a deferred date. There is a minimum investment of 100,000 Saudi Riyals which can be invested in Riyals, Euro, British Pounds or U.S. dollars.

3. 3Alamy

In order to increase market share among 18 to 26 year olds, NCB provides the 3*Alamy* account, which is available to students. It includes benefits such as one local and one international money transfer free every month, use of Al Ahli Online, Al Ahli Mobile or Al Ahli Phone Banking and, a free pre-paid MasterCard.

4. Wessam Accounts

Wessam Accounts are available to Affluent Banking Customers. Wessam account holders receive priority service at NCB's branches and on Al Ahli Phone Banking, together with a 50% discount on all banking transactions, a 50% discount on deposit boxes, a free premium credit card, together with special offers on a range of banking products, amongst other things. In order to become a Wessam customer, NCB requires that the customer transfers a monthly salary of between 20,000 Saudi Riyals to 45,000 Saudi Riyals into the relevant account every month or that a minimum six month average balance of between 100,000 Saudi Riyals to 500,000 Saudi Riyals is maintained in the relevant account.

5. Platinum Program

The Platinum program is available to Affluent Banking Customers. Platinum customers receive priority service at NCB's branches and on Al Ahli Phone Banking, together with free banking transactions and deposit boxes, two free premium credit cards and special offers on banking products. In order to qualify for the Platinum program, NCB requires that the customer transfers a monthly salary of 45,000 Saudi Riyals into the relevant account every month or that a minimum six month average balance of 500,000 Saudi Riyals is maintained in the relevant account.

6. Al Ahli Debit Card

The Al Ahli debit card is offered to Personal Banking Customers, Affluent Banking Customers and Private Banking Customers, enabling those customers to make local and international cash withdrawals at ATMs, make local and international POS transactions, deposit cash (at NCB cash deposit machines only), transfer money to other NCB accounts and accounts held with other banks, make SADAD bill payments and credit card payments and allowing them access to the Al Ahli Online and Al Ahli Mobile services.

B. Digital Banking

NCB conducted approximately 92% of its transactions with its retail customers in 2013G through the following ADCs: ATMs, telephone and internet banking, mobile phone systems, smartphone and tablet applications and SMS messaging. These channels enable NCB to deliver many of its products in a more secure, cost-effective and user-friendly manner, often using the customer's own hardware.

1. ATMs

NCB's ATMs provide basic banking services such as cash withdrawals, accepting deposits, balance enquiries and bill payments together with more advanced functionality.

2. Al Ahli Online

Al Ahli Online allows NCB's customers to access and manage their accounts online from any internet equipped location, at any time. Customers can review and print account and credit card statements, transfer money within NCB, locally, internationally and between the customer's accounts at NCB, transfer funds through *Quick Pay*, pay bills via SADAD, pay for Government services, pay credit card bills, subscribe for company shares in public offerings and pay automobile leasing finance instalments. For the six month period ended 30 June

2014G, NCB conducted approximately 7% of its transactions with its retail customers through the Al Ahli Online service.

3. Al Ahli Phone Banking

Al Ahli Phone Banking provides customers with telephone assistance 24 hours a day, 7 days a week and is accessible anywhere in the world. As at 30 June 2014G, NCB employed 351 customer service representatives, offering phone banking services in Arabic and English. Similar to Al Ahli Online, Al Ahli Phone Banking offers a full range of banking services. The average customer waiting time when accessing the service was 11 seconds during the period 1 January 2014G to 30 June 2014G. For the six month period ended 30 June 2014G, NCB conducted approximately 15% of its transactions with its retail customers through the Al Ahli Phone Banking service.

4. Al Ahli Mobile

Al Ahli Mobile is available for certain Apple (iOSTM), Android and Blackberry devices and is available for download by NCB's customers on the Apple App StoreTM, via Google PlayTM and from Blackberry® World, respectively. Al Ahli Mobile allows NCB's customers to access the full range of account functionality (as is accessed through the Al Ahli Online and Al Ahli Phone Banking services). In addition, customers can use Al Ahli Mobile to withdraw cash without using a debit card in case or emergency. For the six month period ended 30 June 2014G, NCB conducted approximately 1% of its transactions with its retail customers through the Al Ahli Mobile service.

5. SMS Messaging

NCB's customers can choose to receive immediate SMS notifications to their registered mobile number, notifying them of all current account and credit card transactions, including details of the transaction's type, amount and date. Each SMS message contains masked account numbers in order to maintain information confidentiality.

C. Private Banking

Private Banking provides a more personalized service to high net worth clients through its expertise in relationship management and offering unique banking services required by this segment. Private Banking leverages the expertise of the Group in order to develop a strategy tailored to the clients' specific requirements. Through NCBC, wealth managers provide clients with a range of services such as financial planning, investment advice and comprehensive portfolio management. In addition, Private Banking offers clients borrowing solutions against their investments, specialized treasury products and hedging solutions.

D. Quick Pay

As at 30 June 2014G, NCB had 60 Quick Pay remittance centres, which served more than 1 million customers and in line with its strategy to expand its distribution network, NCB launched a further 29 Quick Pay centres throughout the Kingdom in 2013G. Quick Pay has become a vital NCB channel through which customers, particularly expatriate workers, can remit funds overseas, thereby providing financial services to a previously under-served segment.

E. Consumer Finance

Consumer Finance offers a broad suite of consumer finance products to customers through both NCB branches and partnership channels. The key products offered are personal loans (largely payroll loans), credit and pre-pay cards and real estate financing. NCB also offers card-acquiring facilities to a significant number of merchants. These products are described in further detail below:

1. Personal Finance

One of the major products offered by Consumer Finance is *Tayseer Al Ahli*, a *Shari'ah*-compliant product which provides financing to individuals seeking to obtain a cash advance. The financing is secured by the assignment of such individuals' salaries, with financing repayments being deducted directly from periodic salary payments.

2. Credit and Pre-Pay Cards

Consumer Finance also offers a range of *Shari'ah*-compliant credit cards, with loyalty features designed to attract and retain customers (including *Amyali* (air-miles rewards) and *Tayseer* (cash-back rewards)). Cards are distributed through branch and phone banking channels and include both Visa and Mastercard as well as the full range of classic, gold, titanium and platinum cards. Consumer Finance has a strategic partnership with *Al Fursan* (Saudi Arabian Airlines), providing frequent flyer miles and benefits to holders of the *AlFursan* credit card offered by NCB. Customers can also take advantage of a pre-pay card (a card on which users can credit funds and which can then be used at ATMs or POS terminals without the need for an account with NCB), also offered through NCB branches. As at 30 June 2014G, there was approximately a total of 720,000 NCB credit and Pre-Pay cards in issue. As at 30 June 2014G, NCB's market share in credit card assets was approximately 31.4%. In order to increase its market share in credit cards, NCB offers a balance transfer program whereby any balance on another credit card can be transferred to an existing NCB issued credit card, with that balance being subject to a discounted profit rate for a period of six months after the date of transfer.

3. Real Estate Finance

In 2007G, NCB launched its flagship *Shari'ah*-compliant real estate financing offering through mortgage specialists at NCB branches. NCB offers its real estate financing products to Saudi nationals to finance the acquisition of land and real property. The repayment period for home financing products is up to 30 years, with the financing being secured against the financed property. NCB follows a consistent procedure for evaluating requests for home loans and valuing properties. This includes an assessment of the borrower's credit, as well as internal and external valuations of the relevant property.

Real estate financing extended by NCB is at fixed and floating rates of commission in Saudi Riyals only.

F. Leasing

NCB offers an *Ijara* leasing finance to individuals buying passenger vehicles. This involves NCB, at the request of the customer, acquiring a car of the customer's choice and leasing it to the customer for a maximum period of five years. NCB has representatives in the showrooms of all leading automobile dealers in the Kingdom, and works collaboratively with automobile dealers on joint marketing initiatives.

NCB plans to accelerate the growth of its automobile leasing business through increasing its coverage with automobile dealers in the Kingdom.

G. Liabilities and Assurance

Liabilities & Bank Assurance Services provides liabilities and bank assurance products to customers through segment-focused customer programs. The main function of Liabilities & Bank Assurance Services is to analyse the entire retail non-interest bearing deposits ("NIBs") portfolio with the aim of ultimately growing the portfolio through the introduction of products and services across the segments. Debit cards and all the services related to this product is another primary focus of Liabilities & Bank Assurance Services.

Liabilities & Bank Assurance Services is also responsible for developing products to maximize fee generation, diversifying income sources from insurance products, support sales channels, and strengthening relationships with Governmental and public entities in order to attract payroll accounts while also ensuring these accounts follow the required SAMA guidelines.

H. Business Support

Business Support focuses on two main areas which are Business Performance Management and Quality Assurance & Risk Control. With regard to Business Performance Management, the focus is on analysing a consolidated business view for the RBG, oversight of strategic business initiatives, communication within the Retail Business Group and fostering partnerships with other functions within NCB. The Quality Assurance & Risk Control team ensure that NCB's internal policies and procedures are strictly adhered to by the RBG's businesses in order to strengthen the control environment for the benefit of NCB and its customers.

4 – 6 – 2 Corporate

The Corporate operating segment comprises the operations of the CBG which is comprised of four primary customer facing divisions, being Specialised Finance, Institutional Banking, Corporate Banking and SME Banking, complemented by three main departments, being Transaction Banking, Financial Restructuring and Financial Institutions. The CBG services approximately 10,000 corporate customers across various sectors and has ten dedicated corporate service centres for its corporate customers across the Kingdom.

Through these divisions and departments, the CBG offers a wide range of corporate banking services including e-solutions as well as specialised finance, trade finance and treasury services across all segments. NCB is also active in domestic project finance in oil, petrochemical, power, mining and water-related projects planned by the Government. The CBG actively leads and arranges large corporate and contractor financing transactions in the Kingdom with other banks. The CBG offers a comprehensive suite of products to its customers and has enlisted the services of product development specialists to focus specifically on *Shari'ah*-compliant product development. The CBG, through SME Banking, also serves small customers in different regions of the Kingdom including, but not limited to, Makkah, Madinah, Khamis Mushait, Jubail and Qassim, in addition to some remote areas.

NCB has established corporate regional operation centres in Jeddah, Makkah, Khamees Mushait, Riyadh, Khobar, Jubail and Dammam, which are designed as "one-stop" service centres and which aim to provide a superior quality of service to NCB's corporate customers.

The total assets of the CBG as at 30 June 2014G were 116.3 billion Saudi Riyals, representing 26.7% of the Group's total assets (compared to 28.1% as at 30 June 2013G and 27.2% and 26% as at 31 December 2013G and 2012G, respectively).

The operating income of the CBG for the six month period up to 30 June 2014G was 1.8 billion Saudi Riyals, representing 22.6% of the Group's operating income (compared to 22% for the six months ended 30 June 2013G and 27.2% and 26% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

The net income of the CBG for the six month period up to 30 June 2014G was 2.4 billion Saudi Riyals representing 47.3% of the Group's net income (compared to 28.4% for the six months ended 30 June 2013G and 32.5% and 12.3% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

4 – 6 – 2 – 1 Strategy

The CBG aims to be the preferred provider of financial solutions to selected corporate clients. Its strategy for expansion is to provide its corporate clients with the full range of financial products and services and to attract and develop new customer relationships from targeted market segments, as well as enhancing relationships with existing corporate customers. The strategy aims to increase market share by focusing on all the three major regions (being central, western and eastern) of the Kingdom. Target customers are determined by the type of company, size of balance sheet, potential income and perceived risk.

In 2013G, the CBG pursued 5 strategic initiatives to acquire more customers and improve customer service and in turn to grow NCB's net operating income. These initiatives have continued during the six month period ended 30 June 2014G and are as follows:

1. to boost customer acquisitions in the CBG and the SME segment;
2. to become the leading bank for the SME segment in the Kingdom;
3. to cross-sell NCB's new products to existing customers and obtain more value;
4. to establish NCB as the customer's bank of choice in the Kingdom; and
5. to position NCB as one of the best banks in the Kingdom in transaction banking through the use of e-solutions.

4 – 6 – 2 – 2 Functions within the CBG

The products and services offered to customers by the CBG are provided through a range of different functions, namely Specialised Finance, Institutional Banking, Corporate Banking, SME Banking, Financial Institutions, Transaction Banking, Financial Restructuring, and Corporate Business Support Services. A description of each such function is set out below. The CBG is also responsible for the management of NCB's international representative offices in Singapore, Seoul and Shanghai.

A. Specialised Finance

Specialised Finance serves approximately 100 high value clients of the CBG and its products include project finance in the energy and infrastructure sectors, real estate development projects, securitisation and receivables finance, aircraft and ship finance and syndication and loans agency functions.

B. Institutional Banking

Institutional Banking currently serves over 570 of the CBG's corporate customers (including borrowing and non-borrowing customers), including most of the large corporations in the Kingdom, being those with an annual turnover of at least 600 million Saudi Riyals.

C. Corporate Banking

Corporate Banking provides NCB's products and services to a target market of medium-sized corporate customers with an annual turnover of at least 100 million Saudi Riyals. As at 30 June 2014G, this function serviced approximately 1000 customers, comprised of 600 borrowing relationships and 400 non-borrowing relationships.

D. SME Banking

SME Banking is responsible for developing, marketing and providing *Shari'ah*-compliant products and services to NCB's small and medium-sized corporate customers, being those with an annual turnover of up to 100 million Saudi Riyals. As at 30 June 2014G, the division provided its services to customers comprised of 4,700 borrowing relationships and 3,100 non-borrowing relationships.

NCB has been the largest lender through the Government's Kafala loan guarantee programme, a collaboration between the Kingdom's Ministry of Finance, represented by the Saudi Industrial Development Fund ("**SIDF"**) and banks in the Kingdom, which aims to promote financing to SMEs within the Kingdom. Through this programme, banks offering finance to customers of up to 2 million Saudi Riyals will receive a guarantee from the SIDF-Kafala programme, covering up to 80% of the financing amount. As at 30 June 2014G, NCB has provided approximately 40% of the total Kafala funds disbursed by all banks in the Kingdom to more than 3,000 companies.

E. Transaction and Cash Banking

Transaction Banking provides CBG's corporate customers with tailored products and services, which include (a) payments, collections and cash management solutions, mainly through electronic channels, (b) trade finance responsibilities that look after clients' overall trade utilisation, and (c) trade and cash management product development. Transaction Banking further extends such services through corporate service centres.

Transaction Banking offers a full range of cash management and trade products and solutions tailored to the local market, which aim to help maximise Corporate and SME clients' resources as well as providing value-added solutions to meet their banking needs.

As at 30 June 2014G, Transaction Banking dealt with 14,293 merchants with over 18,858 POS terminals in the Kingdom and is among the market leaders in POS acquisition. As at 30 June 2014G, the Transaction Banking's market share in POS was 15.6%, the second largest in the Kingdom.

As part of NCB's commitment to be the region's best provider of digital banking services, Transaction Banking has completely renovated its corporate online banking infrastructure and collection offering, resulting in a complete solution aimed to serve all CBG segments in a more efficient way.

F. Financial Restructuring

Financial Restructuring supports CBG by managing existing and prospective impaired corporate loans. The department works closely with corporate customers that have financial, operational or other business difficulties to find solutions that best protect NCB's exposure to them.

G. Financial Institutions

Financial Institutions focuses on maintaining and enhancing NCB's business relationships with its correspondent banks and reputable financial institutions. NCB has significantly reduced the number of correspondent banks with which it maintains relationships during recent years in order to improve efficiencies and reduce the regulatory and compliance burden associated with maintaining these relationships. The department's strategy is to target the Kingdom's crude oil and petrochemical export industries and to undertake remittances by international customers of this sector into the Kingdom. In addition, it seeks to support major infrastructure projects in the Kingdom by issuing guarantees in favour of local project owners against counter-guarantees from NCB's international correspondents.

Financial Institutions manages approximately 300 banking relationships globally, offering a full range of products and services to NCB's correspondent banks and local customers. This department offers vostro accounts and interbank payment services, issuance of letters of guarantee for local beneficiaries, confirmation of export letters of credit, bills discounting and other trade related services. NCB's representative offices described under "*Company Description and Nature of Business – Business of NCB – Operating Segments – Corporate Banking – International Representative Offices*" report to Financial Institutions.

H. Corporate Business Support Services

Corporate Business Support Services comprises five functions: (i) Performance Management which designs the CBG's incentive programme, reports, key performance indicators and produces regular reviews of the CBG's business portfolio; (ii) Product Management which documents all of the CBG's product catalogues and policies; (iii) Compliance and Operation Risk Management which ensures the CBG's adherence to SAMA regulations, resolves internal audit observations and maintains the operational risk framework; (iv) Quality and Service Standards which develops policies and procedures for the CBG and monitors the performance of service level agreements with internal service partners; and (v) Business Solutions which manages technology solutions within the CBG.

I. International Representative Offices

NCB's international representative offices in Singapore, Seoul and Shanghai are primarily marketing and facilitative outlets which promote the Group's products and services in their respective regions. The international representative offices do not carry out any banking transactions themselves; rather they facilitate the banking activities of NCB and its branches.

4 - 6 - 3 Treasury

The Treasury operating segment comprises the operations of the Treasury Group which is responsible for the funding requirements of NCB's business activities and for managing NCB's investments, while providing NCB's customers with treasury-related solutions such as foreign exchange, commodities, commission or other profit rate/derivative and structured products. Most of those products have been developed to be *Shari'ah*-compliant

The Treasury Group seeks to preserve and protect NCB's liquidity position by maximising cost efficiency and diversity across funding sources, products, sectors and regions. NCB manages its liquidity and cash flow dynamically through the use of interbank placements, repo and long term debt products and hybrid structures. The liquidity and funding requirements of NCB are undertaken in accordance with pre-determined limits set by NCB's asset and liability committee (the "**ALCO"**) in relation to net outflows, stress scenarios, projected cash-flows, and regulatory liquidity ratios. The stability and behaviour of NCB's deposit base is analysed by NCB's Risk Group (see section 4-7 "*Company Description and Nature of Business – Risk Governance Framework*") using historical, simulated data and statistical interval analysis. The results of such analyses, NCB's funding limits, potential funding issues and pricing history and mechanics are discussed by the ALCO in its monthly meetings. Any changes to pricing strategy and environment are communicated to the ALCO through the head of the Treasury Group.

The Treasury Group is also charged with managing the investment activities of NCB, providing asset allocation, balance sheet optimisation and the expertise in managing NCB's investments. NCB invests in a full spectrum of asset classes within the confines of its conservative investment criteria.

NCB aims to use its investment portfolio for special commission rate risk hedging and yield enhancement through investment in high quality and liquid investment opportunities that are approved by the Board and recommended by the Treasury and Risk Groups.

The total assets of the Treasury Group as at 30 June 2014G were 180.7 billion Saudi Riyals, representing 41.5% of the Group's total assets (compared to 40.1% and 43.6% as at 31 December 2013G and 2012G, respectively).

The operating income of the Treasury Group for the six month period up to 30 June 2014G was 2 billion Saudi Riyals, representing 24.6% of the Group's operating income (compared to 22.7% and 23.9% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

The net income of the Treasury Group for the six month period up to 30 June 2014G was 1.7 billion Saudi Riyals representing 32.8% of the Group's net income (compared to 38% and 43.8% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

4 - 6 - 3 - 1 Functions within the Treasury Group

The Treasury Group is organised along eight distinct but related business lines, namely (i) Sales, (ii) Asset and Liability Management ("**ALM**") and Money Market, (iii) Principal Strategies, (iv) Trading, (v) Structured Solutions, (vi) Bahrain Treasury, (vii) Business Development and Support, and (viii) Portfolio Attribution and Analytics.

The Treasury Group is supported by the following groups, which are independent of the Treasury Group: (a) the Finance Group, which is responsible for accounting, reconciliations and statutory and regulatory reporting; (b) the Risk Group, which monitors credit, market and operational risks of the Group along with applicable limits; and (c) the Treasury Operations Department of the Shared Services Group, which confirms, settles and accounts for all treasury transactions.

A. Sales

Sales is responsible for providing specialised client coverage and distributing treasury solutions to NCB's customers. Sales offers a wide array of products ranging from standard foreign exchange and money market instruments to more bespoke solutions such as structured profit rates, foreign exchange, derivatives, commodities. Sales also caters to the commercial hedging requirements of NCB's customers across both assets and liabilities, taking into consideration that NCB has developed *Shari'ah*–compliant formats of the aforementioned products. The sales team provides national coverage through its presence in three major geographic locations: Jeddah, Riyadh and Khobar.

B. ALM and Money Market

ALM and Money Market is responsible for NCB's liquidity and for ensuring that NCB is able to meet its financial obligations at all times. This includes overseeing all short-term funding sources, pricing and managing all short-term and long-term loans. The desk is also involved in Saudi interbank deposit market making, U.S.$/SAR foreign exchange swaps, U.S.$/SAR forwards, external term funding and managing NCB's SAR foreign exchange exposure.

As at 30 June 2014G, NCB's average cost of funds was 0.6% annualised (compared to 0.55% for the year ended 31 December 2013G).

C. Principal Strategies

Principal Strategies is responsible for providing asset allocation, balance sheet optimisation and NCB's investments and aims to protect NCB's balance sheet from abnormal commission rate/profit rate moves, enhance yields/income and contribute to the maintenance of adequate liquidity coverage within defined risk limits. The primary business objectives underpinning Principal Strategies are:

(a) aligning investment objectives with NCB's strategy and liquidity limits;

(b) strategic asset distribution to optimise and enhance income;

(c) executing commission rate/profit rate hedging within applicable commission rate/profit rate gap limits set by the ALCO; and

(d) providing for diversification and yield enhancement through investment/hedging.

NCB's target yield is subject to change and depends on the phase of the economic cycle and the liquidity and income requirements of NCB.

D. Trading

Trading has the following functions and roles:

Foreign Exchange: it aims to execute its foreign exchange trading business in a profitable and efficient manner by adding value through proprietary trading that is restricted by strict controls. It also ensures that sufficient banknotes are available to meet client demands.

Rates: focuses on providing the solutions, pricing and execution of commission rate derivative products in response to clients and counterparties, providing competitive market quotes within defined profit and risk parameters, and managing the commission rate trading book by trading while applying rigorous risk management techniques to efficiently absorb the flow and generate the required profitability.

Commodities: provides the solutions, pricing and execution of plain vanilla commodity products including: spot, swaps and forwards, managing all market risk associated with commodities transactions, executing clients' orders in relation to commodities.

E. Structured Solutions

Structured Solutions is responsible for designing standard and customised *Shari'ah*-compliant structured products for NCB's client base. Any risks to which NCB may be exposed in connection with offering such products are hedged through NCB's trading function.

F. Bahrain Treasury

Bahrain Treasury was established to capitalise on the opportunities in the offshore Islamic banking market, assisting the main treasury desk in managing NCB's liquidity and dealing in Islamic products, (principally *murabaha*-based transactions).

G. Business Development and Support

Business Development and Support manages product development, the Treasury Group's IT systems, internal policies and procedures, vendor management and agreements with counterparties.

H. Portfolio Attribution and Analytics

Portfolio Attribution and Analytics supports the Treasury Group in its efforts to achieve its strategic aspirations through analysing the performance of clients, products and portfolios and generating reports thereon.

4 - 6 - 4 Capital Markets

The Capital Markets operating segment comprises the operations of NCBC, further details of which are set out in section 4-12 "*Company Description and Nature of Business – Business of NCBC*".

The total assets of the Capital Markets operating segment as at 30 June 2014G were 1.4 billion Saudi Riyals, representing 0.3% of the Group's total assets (compared to 0.3% as at 30 June 2013G, 0.3% and 0.3% as at 31 December 2013G and 2012G, respectively).

The operating income of the Capital Markets operating segment for the six month period up to 30 June 2014G was 394 million Saudi Riyals, representing 4.9% of the Group's operating income (compared to 3.5 percent. for the six month period ending 30 June 2013G, 1.4% and 5.2% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

The net income of the Capital Markets operating segment for the six month period up to 30 June 2014G was 204 million Saudi Riyals representing 4% of the Group's net income (compared to 2.9% for the six month period ending 30 June 2013G, 1.4% and 5.2% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

4 – 6 – 5 International Banking

The International Banking operating segment comprises the operations of TFKB and NCB's Beirut branch, further details of which are set out in section 4-12 "*Company Description and Nature of Business – Business of TFKB*".

NCB operates two international branches, one in Beirut, Lebanon which is a part of the International Banking operating segment, and the other in Bahrain. The Lebanon branch focuses on servicing the Saudi customer base in Lebanon, mainly collecting deposits and investing in government securities and bank placements.

The total assets of International Banking as at 30 June 2014G were 52,247 million Saudi Riyals, representing 12% of the Group's total assets (compared to 11.4% as at 30 June 2013G, 12.4% and 12.1% as at 31 December 2013G and 2012G, respectively).

The operating income of International Banking for the six month period up to 30 June 2014G was 1,029 million Saudi Riyals, representing 12.7% of the Group's operating income (compared to 14.4% for the six month period ending 30 June 2013G, 14.6% and 15.6% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

The net income of International Banking for the six month period up to 30 June 2014G was 196 million Saudi Riyals representing 3.9% of the Group's net income (compared to 5% for the six month period ending 30 June 2013G, 5% and 6.4% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

4 – 7 Risk Governance Framework

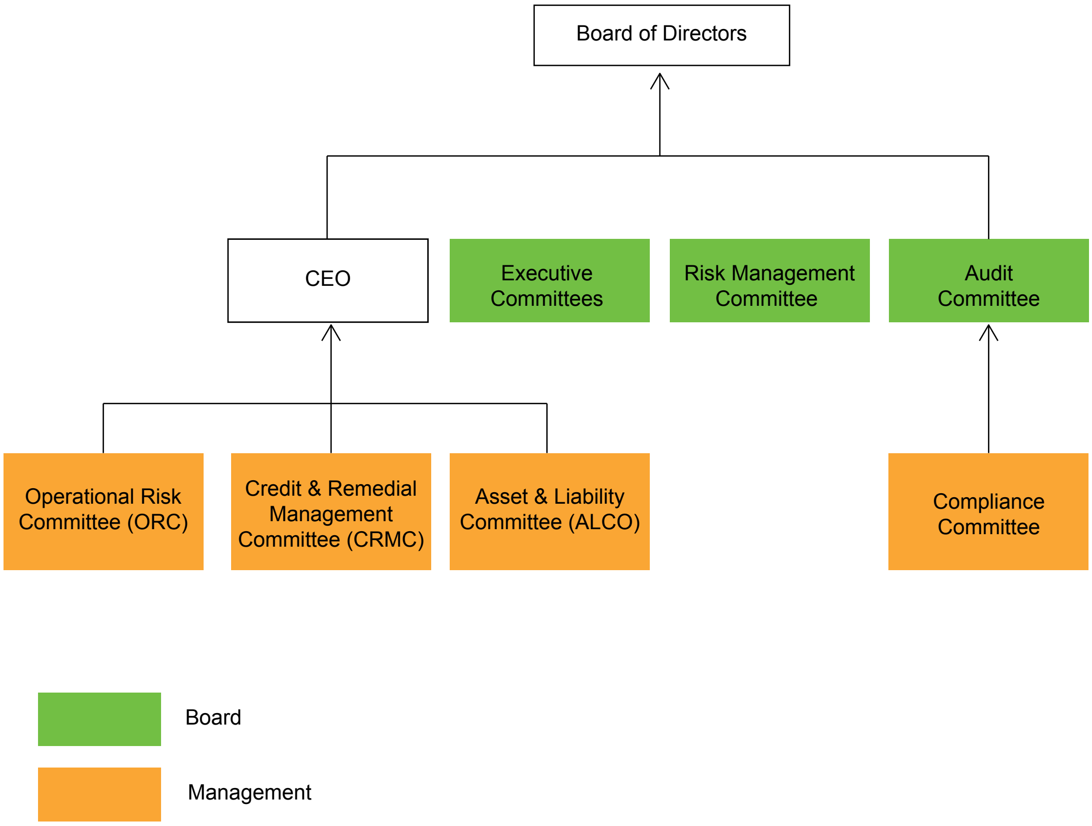
The Board and Senior Management are ultimately responsible for all the risks assumed by NCB, including identifying, assessing, communicating and monitoring risks on an enterprise-wide basis. The Board strikes a balance between the risk appetite and the business strategy of NCB. They seek to balance the risk profile against sustainable returns to achieve the business goals of NCB. The Board has engaged qualified professionals, set policies and procedures, limits, thresholds, authority levels and established committees, review mechanisms and controls to manage risk within a common framework.

NCB's aim is to align policy with international best practices which require banks to have in place comprehensive risk management processes (including appropriate board and Senior Management oversight) to identify, measure, monitor and control their overall risk profile. Risk governance practices include reviewing and approving products and services and employing risk measurement methodologies and control procedures.

The Board delegates certain of its risk supervisory responsibilities to certain Board committees, namely the Executive Committee, the Audit Committee and the Risk Committee. Risk is also managed by the Board and Senior Management through the control functions of NCB, which comprises the Risk Group, the *Shari'ah* Group, the Legal Division, the Compliance Division and the Internal Audit Division.

The following diagram sets out the structure and reporting lines of the various risk management committees within NCB:

Chart 4-12 Structure and reporting lines of the various risk management committees within NCB



Source: NCB

4 – 7 – 1 Board Committees

The Board has delegated certain of its risk management oversight responsibilities to the Executive Committee, the Audit Committee and the Risk Committee.

For further details of these Board committees see section 5 - "*Directors, Senior Executives and Corporate Governance*".

4 – 7 – 2 Management Committees

The ORC, the ALCO and the CRMC are responsible within NCB for risk management oversight of NCB.

For further details of these management committees see section 5 - "*Directors, Senior Executives and Corporate Governance*".

4 – 7 – 3 Senior Management and Groups within NCB's risk framework

Risk is inherent in NCB's activities, but NCB's risk management policies and procedures are designed to identify and analyse these risks, prescribe appropriate risk limitations and monitor the level and incidence of such risks on an ongoing basis. NCB is exposed to: (1) credit risk; (2) liquidity risk; (3) market risk; (4) legal and operational risk; (5) strategic risk; and (6) reputational risk. These risk categories include both trading and non-trading risks. The independent risk control process includes business risks such as changes in the environment and technology as warranted through portfolio reviews and stress tests.

NCB manages the risks facing its business principally through its Risk Group which consists of five departments: (i) Corporate Risk Management, (ii) Retail Risk and Collections, (iii) Market Risk Management, (iv) Operational Risk, and (v) Risk Management Strategy and Analytics. The Risk Group works together with the *Shari'ah* Group, the Compliance Division, the Legal Division, the Internal Audit Division and the Board and management committees to ensure that NCB acquires assets with an acceptable risk-return profile for the purposes of generating sustainable earnings, whilst observing healthy capital adequacy and liquidity to maintain a strong credit rating.

NCB's risk management strategy focuses on the following key aspects:

1. **risk governance organisation**: definition of roles and responsibilities and how different parties interact with each other;
2. **risk policies**: must apply risk policies widely across all risk-taking businesses and must be updated and reviewed regularly and encompass institutionalisation of rules and conduct, delegation of authorities and decision rights, internal capital adequacy assessment and plan (ICAAP) and risk appetite statement; and
3. **risk practices**: maintaining an up to date risk register, carrying out stress testing and scenario analysis, quarterly portfolio reviews, monthly NPL and troubled credit reviews.

4 – 7 – 4 Credit Risk

Credit risk is the risk that a customer or counterparty of NCB is unable to meet its obligations in accordance with the relevant agreed terms (and that any collateral securing those obligations is insufficient) and in doing so will cause NCB to incur a financial loss or default on NCB's own obligations. NCB manages credit exposure relating to its very limited trading activities by monitoring credit limits, entering into collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure

4 – 7 – 5 CRMC Approval Authority

Detailed credit policies, procedures and guidelines, proper segregation of duties, an authorities' system for credit approval, periodic audits and other examinations by internal auditors provide a system of checks and balances within NCB. Overall exposures are periodically evaluated to ensure diversification by product, industry, obligor and geographical distribution to minimise credit risk concentration. Any exception to or deviation from these policies and procedures requires approval from the relevant approval authority from the CRMC up to the full Board depending on the materiality of the exception.

NCB continuously reviews and analyses its loan and investment portfolio and credit risks and, in particular, the number and value of NPLs as a proportion of its loan portfolio. In the ordinary course of its lending activities, NCB holds collateral as security to limit credit risk in loans and advances. This collateral mainly includes time and other cash deposits, financial guarantees from other banks, equities, real estate and other fixed assets. The collateral is held mainly against commercial and individual loans and are managed against relevant exposures at their net realisable values as detailed below. NCB monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements and monitors the market value of collateral obtained periodically. Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk.

The Company's Board of Directors and Senior Management affirm that according to their knowledge as of the date of the Prospectus, NCB is in compliance with all applicable lending regulations in the Banking Control Law.

With respect to individuals, information approved for assessing stability/creditworthiness includes:

- Customer's age, marital status, and other personal information.
- Workplace, nature of job, and sources of income.
- Financial and in-kind property.
- Outstanding liabilities.
- Credit records.

In order to ensure standard loan agreements include obligations from the customer and payment undertakings, in addition to other guarantees, including:

- Remittance of salary.
- Mortgage of property.
- Mortgage of investments.
- Third-party guarantor.

With respect to companies, information approved for assessing fitness includes:

- Purpose of the loan/facilities.
- Type of activity and growth potential.
- Degree of risk assessment.
- Customer history, market position, and management team expertise.
- Analysis of the competitors and market trends.
- Analysis of financial statements and prospects, especially projected financial flows and future business plans.
- Available guarantees.

In order to ensure payment, the loan/facilities agreement contains obligations from the customer and payment undertakings, in addition to other guarantees including:

- Transfer of project payment requests or collection of sales.
- Mortgage of real estate, workshops or factories.
- Mortgage of investments.
- Surety of the owners.

NCB also has special collection and follow up departments in case of late payment or default. NCB also has departments dedicated to managing credit relationships with companies and reviewing their financial status on a continuing basis. If the customer is in default, the reasons are reviewed and an attempt is made to arrive at a new payment schedule that is satisfactory to both parties. NCB also has a department dedicated to pursuing debts that have not been paid by companies.

As at 30 June 2014G, NCB held collateral with a fair value amounting to 62.9 billion Saudi Riyals (as compared to 56.5 billion Saudi Riyals as at 31 December 2013G).

It is NCB's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, NCB does not occupy repossessed properties for business use.

4 – 7 – 6 Debt Recovery

When an obligor of NCB has defaulted or is expected to default on a commitment, the Business Unit transfers the relationship to the Finance Re-structuring Division to maximize the possibility of remedying the default and minimising the potential loss for NCB. The remedial management activity (debt recovery), including the authority required for compromising settlements, is done in accordance with NCB's credit policy. The Credit and Remedial Management Committee is responsible for overseeing the remedial management activity on a monthly basis.

4 – 7 – 7 Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements as they fall due. Liquidity risk arises from a mismatch between the maturities of assets and liabilities. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to cease immediately. Liquidity risk could arise from the inability of NCB to anticipate and provide for unforeseen decreases or changes in funding sources. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

Ultimate responsibility for liquidity risk management rests with the Board, which NCB believes has built an appropriate liquidity risk management framework for the management of NCB's short-, medium- and long-term funding and liquidity management requirements. To mitigate the liquidity risk, NCB has diversified its funding sources and assets are managed with liquidity in mind in order to try to maintain a healthy balance of cash, cash equivalents and readily marketable securities.

NCB's liquidity risk is managed through an approved liquidity management policy which, amongst other things, requires NCB to maintain a stock of liquid assets to manage unforeseen circumstances and contains a liquidity crisis contingency plan which NCB may have to resort to in a liquidity crisis situation. These measures are aimed at ensuring that NCB is able to respond to a liquidity crisis in a short period of time. The plan provides a framework within which any liquidity crisis can be managed most effectively and efficiently. The plan focuses on identifying the trigger events that could cause a liquidity crisis, the actions to be taken to manage any crisis that might occur and a clear division of responsibility of personnel when faced with any such situation.

The Treasury Group manages NCB's liquidity on a daily basis. The ALCO sets the broad framework for the Treasury Group in seeking to ensure that NCB is always in a position to meet its financial commitments. Any changes to pricing strategy and environment requires ALCO approval. The Treasury Group seeks to preserve and protect NCB's liquidity position by maximising cost efficiency and diversity across funding sources, products, sectors and regions. NCB manages its liquidity and cash flow dynamically through the use of interbank placements, repo and long term debt products and hybrid structures.

An ALCO meeting is held on a monthly basis to handle, consider and address any issues relating to maturity mismatches, commission rate risk/sensitivity and yield/cost analysis.

Diversifying the depositor base, reducing dependence on large depositors and maintaining a suitable mix of deposits, including low-cost deposits, are some of the measures that NCB has taken to maintain a stable deposit base. NCB also maintains a stock of high-quality liquid and marketable securities, which could be realised at short notice to raise cash, if required. NCB consistently maintains an adequate liquidity ratio and regularly monitors its deposits to ensure the retention of a diversified deposit base in order to minimise concentration risk. NCB also has arrangements in place with several banks to raise funds at short notice, if required.

In terms of customer deposits, NCB's deposit base is made up predominantly of customer deposits. A large proportion of retail deposits are held on short-term time deposit or are repayable on demand (see section 2-1-13 "*Risk Factors – Risks Relating to the Occurrence of an Asset-Liability Maturity Gap")*. To an extent, NCB also takes advantage of funding from interbank borrowings and is therefore exposed to any potential significant lack of availability of interbank funding and volatility in the interbank market which might occur for reasons beyond NCB's control and be influenced by global economic conditions outside of the Kingdom. Disruptions, uncertainty or volatility in the capital and credit markets may limit NCB's ability to refinance maturing liabilities with similar-term funding and/or may also increase the cost of such funding.

The availability to NCB of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and NCB's financial condition, credit ratings and credit capacity. There is also the possibility that customers or lenders could develop a negative perception of NCB's financial prospects if, for example, NCB incurs large losses, experiences significant deposit outflows or if the level of NCB's business activity decreases. In particular, NCB's access to funds may be impaired if rating agencies downgrade NCB's ratings.

NCB's liquidity position is subjected to different stress scenarios in order to evaluate the impact of unlikely but plausible events on liquidity. In compliance with the SAMA stress testing rules issued in November 2011G, NCB has adopted a comprehensive stress testing framework.

A further discussion of NCB's liquidity exposure and policies is set out under section 6- "*Financial Information, Management Discussion and Analysis*".

4 – 7 – 8 Liquidity of Assets and Liabilities

Senior Management, through ALCO, monitors NCB's loan maturity profile to ensure that adequate liquidity is maintained. As at 30 June 2014G, NCB's credit ratio was 47.3% and its liquidity ratio was 29%. As at 30 June 2014G, 84.7% of NCB's funding (which includes amounts due to banks and financial institutions, customers' deposits, debt securities and other borrowed liabilities) had remaining maturities of one year or less, or were payable on demand.

4 – 7 – 9 Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices, for instance, as a result of fluctuations in commission rates and/or exchange rates and/or in bond, equity and commodity prices.

NCB's Market Risk department independently monitors market risks. NCB's market risk is governed by a financial risk management policy, which defines various limits which NCB should maintain for its investment and trading portfolios. NCB's entire portfolio of available for sale investments is marked to market daily.

NCB uses the Value at Risk (VaR) as a principal tool to measure and control market risk exposure within the NCB trading book. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to certain limitations. The limitations of the VaR methodology are addressed by supplementing VaR limits with other position and sensitivity limit structures. In addition, NCB uses stress tests to measure the financial impact on trading books based on unusual market scenarios.

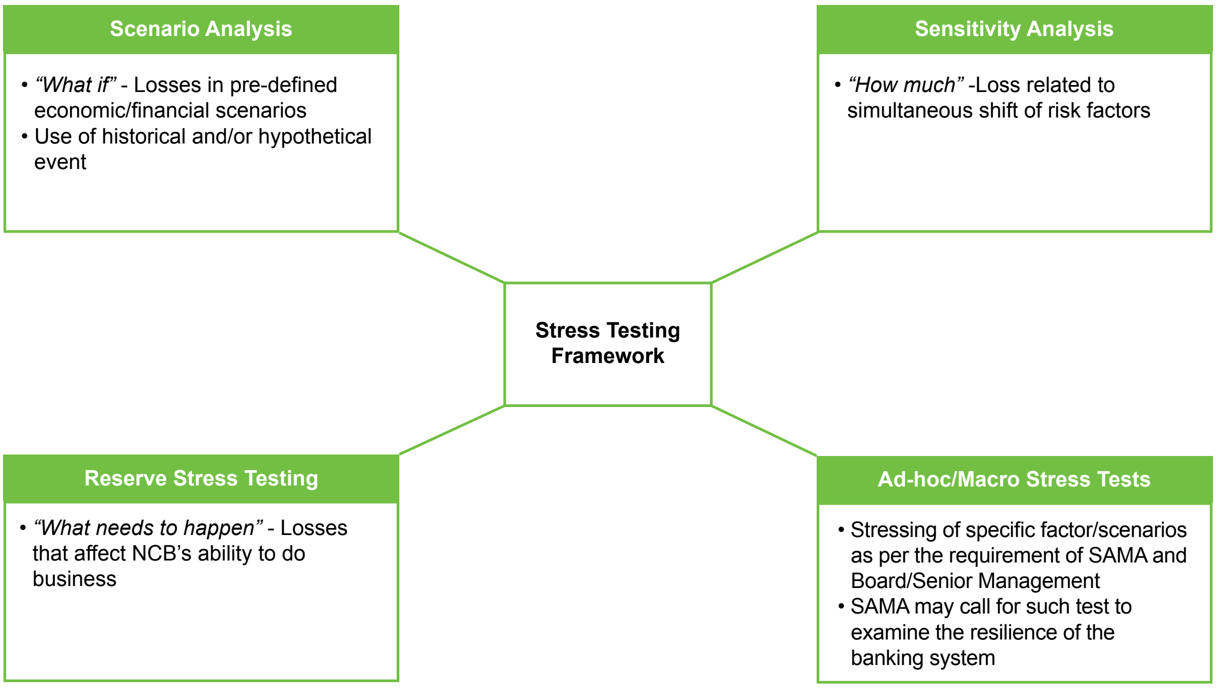
4 – 7 – 10 Stress testing

Stress tests throughout NCB form an integral part of the Risk review process and provide sufficient insight into the financial health and risk profile of NCB. Stress tests also provide early warning signs of potential threats to NCB's capital. NCB adopts a comprehensive stress testing framework:

- Concentration risk;
- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Market risk in investments;
- Operational risk; and
- Regulatory ratios under crisis situations.

Stress testing has four key components, which are: (i) scenario analysis, (ii) sensitivity analysis, (iii) reverse stress testing, and (iv) ad-hoc / macro stress tests. Scenario analysis defines losses in pre-defined economic or financial scenarios, by using both historical and hypothetical events. These events are then reviewed using a sensitivity analysis to study the losses that would arise in circumstances where there is a simultaneous shift in various risk factors associated with that specific scenario. Reverse stress testing is used by NCB to determine what procedures or policies it needs to put in place in order to avoid events or circumstances that could materially affect NCB's ability to carry on its business. From time to time, specific factors or scenarios are also stress tested on an ad-hoc basis in accordance with SAMA requirements or initiatives of the Board or Senior Management. A summary of the stress testing framework is set out below:

Table 4-13 Stress testing framework



Source: NCB

The stress testing process is regular and detailed and uses both plausible and severe scenarios. The results of these stress tests are shared with the Risk Committee of the Board on a quarterly basis and with SAMA semi-annually. Should the Risk Committee find that the impact falls outside of the risk appetite of NCB, appropriate amendments are made to NCB's business plans.

4 – 7 – 11 Foreign Exchange Risk

Foreign exchange risk is the risk of the loss that results from changes in foreign exchange rates. The major foreign currencies to which NCB is exposed are the US Dollar and Turkish Lira. The fixed exchange rate between the US Dollar and SAR substantially reduces this risk, which will only change if the fixed exchange rate between the two currencies is revised. At the present time, NCB is not aware of any proposed change to the fixed exchange rate in the future.

To measure, monitor and control currency exposures NCB has (i) established intraday and overnight limits together with stop loss limits on all currency proprietary trading and (ii) transaction limits for foreign exchange dealers in order to avoid excess exposure. Net open positions have been defined for each currency and a currency exposure and limits control report is prepared on a daily basis. Further, a stress test is prepared on a weekly basis to find out the impact of various scenario analyses on profitability including scenario analyses on revaluation/devaluation of the SAR against different currencies. In terms of analysis of foreign exchange risk, currency gap analysis is produced at month end which includes forward purchases and sales and a foreign exchange risk analysis is produced every week setting out all outstanding foreign exchange exposure, including spot, swaps and forwards. A report on total foreign currency assets and liabilities excluding contingent exposure is produced daily.

SAMA has set prudent norms, which are followed by NCB, for the net open position to restrict banks from taking undue foreign exchange risks. The table below sets out NCB's currency exposure as at 30 June 2014G, 31 December 2013G and 31 December 2012G:

Table 4-14 NCB's currency exposure as at 30 June 2014G, 31 December 2013G and 31 December 2012G

	30 June 2014G	31 December 2013G	31 December 2012G
		SAR'000	
	Long (short)*	Long (short)*	Long (short)*
Net foreign currency exposure:			
U.S.$	230,000	109,945	74,009
TL	4,673,811	4,497,811	4,783,630

Source: NCB

* NCB is in a "long" position vis-à-vis a particular currency if it stands to benefit from an appreciation in the value of that currency against other currencies. NCB is in a "short" position vis-à-vis a particular currency if the appreciation in the value of that currency against other currencies would result in a loss. Here, short positions are indicated by placing them in parenthesis to differentiate them from long positions.

4 – 7 – 12 Commission Rate Risk

Commission rate risk arises due to the probability of changes in commission rates which may affect the value of financial instruments held by NCB or NCB's future profitability. NCB's short and medium term liability structure and funding costs are managed by the ALCO.

The ALCO manages the commission rate risk of NCB. NCB seeks to manage commission rate risk so that movements in commission rates do not adversely affect net special commission income. NCB manages its commission rate risk by matching the re-pricing of assets and liabilities and by monitoring gap limits.

Foreign currency loans are linked to LIBOR rates and re-priced regularly to reduce the inherent commission rate risk. NCB typically manages the commission rate risk of its non-trading financial instruments by segmenting these assets and liabilities. The risk measures used by NCB include regular monitoring of limits by the Risk Group, maturity profile analysis, duration gap management, earning sensitivity scenarios and commission rate scenarios. NCB's hedging policy sets the framework to be followed for hedging the commission rate risk if certain thresholds are triggered. NCB also performs a regular stress test on commission rate risk in order to ensure that risk remains within the risk appetite set by the Board.

4 – 7 – 13 Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. NCB has detailed policies and procedures that are regularly updated to ensure a robust internal control mechanism for NCB. NCB continues to invest in risk management and mitigation strategies, such as a robust control infrastructure, business continuity management or through risk transfer mechanisms such as insurance and outsourcing.

NCB has a well-defined operational risk management framework which is supervised primarily by the ORC. The ORC reports to the CEO and is comprised of the Head of Risk Group (who is Chairman of the Committee) and the heads of the Shared Services, Retail Banking, Corporate Banking, Treasury, Internal Audit, Compliance and Operational Risk (who is also Secretary of the Committee) functions.

NCB's approach to risk management includes the following key factors:

- Control environment – The control environment is the establishment of a risk awareness culture within NCB, influencing the control consciousness of its employees and process controls.
- Risk assessment – Every entity faces a variety of risks from external and internal sources that must be assessed both at the entity and the activity level.
- Identify inherent risks – NCB's risk register seeks to cover all NCB's operational activities and identifies inherent risks.
- Control activities – These internal policies and procedures help ensure management directives are carried out and include monitoring and self-testing of controls.
- Information and communication – Pertinent information must be identified, captured and communicated in a form and timeframe that supports all other control components, control ratings and residual risks, and all identified controls and residual risks are rated according to their frequency and impact.
- Monitoring – Internal control systems need to be monitored which involves assessing the quality of each system's performance over time. NCB maintains corrective action plans for all accepted residual risks, identified either during the risk assessment or resulting from any operational loss event.

Under the oversight of the ORC, NCB's operational risk management strategy includes the following features:

- Discuss amendments to NCB's operational risk strategy and framework and its implementation.
- Oversee the development of operational risk-related policies and procedures, identify dependencies and overlaps in cross-functional policies and procedures and address redundancies.
- Provide leadership in the development of best practice in matters of operational risk.
- Provide the Board with regular reports on the state of operational risk and the progress being made to reduce operational risks across NCB's business.
- Oversee the development of methodologies, processes, systems and data management capabilities.
- Assess adequacy of resources assigned to operational risk management in NCB's organisation and prepare recommendations to the CEO.
- Oversee the progress of all action plans across NCB and their effects on the quality of the controls.
- Oversee the operational/fraud risk exposure of NCB (actual, potential and near misses).
- Discuss the major operational incidents of NCB and the corrective actions that have been taken.
- Oversee the progress of operational risk framework implementation in NCB, provide a fact sheet of operational risk activities implementation, and initiatives proposed by various groups within NCB.

4 – 7 – 14 Legal and Compliance Risk

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by NCB or its counterparty under the terms of its contractual agreements. NCB seeks to mitigate this risk through the use of properly reviewed standardised documentation and appropriate legal advice in relation to its non-standard documentation.

4 – 7 – 15 Strategic Risk

Strategic risk can arise from adverse business decisions, poor implementation of decisions, absence of a clearly defined business strategic direction and goals, failure to have adequate product programs, inadequate preparations for continuity of business should disaster strike, and incorrect assessment of external factors. NCB has mitigated this risk by implementing a well-defined strategy and growth plans. In addition, NCB's disaster recovery plan has been documented and tested with the assistance of an external consultant and detailed manuals have been made available to NCB's employees. They are regularly updated in developments through ongoing training, education and system updates.

4 – 7 – 16 Reputational Risk

Reputational risk can arise from poor standards of customer service, a high incidence of customer complaints, non-adherence to regulations, imposition of penalties and adverse publicity in the media. The Customer Services Group monitors services rendered through delivery points and ensures timely corrective measures are taken. Additionally, NCB has established a separate Compliance Division, which is responsible for ensuring stringent compliance procedures across NCB. Also, all members of NCB's staff are required to adhere to NCB's Code of Ethics and Business Conduct which confirms NCB's ethical principles of (i) Uncompromising Integrity, (ii) Respect; (iii) Responsibility; and (iv) Good Citizenship which must be applied at all times when dealing with customers or other staff members. The policy is designed to mitigate NCB's reputational risk at a human level when staff members are interacting with customers and each other. NCB's managers are expected to exemplify the highest standards of conduct and ethical behaviour to set an example to NCB employees who report to them.

4 – 7 – 17 Shari'ah Group

The *Shari'ah* Group was created in December 2006G to support NCB's business, control, support and strategic functions in implementing NCB's Islamic banking strategy and to ensure full *Shari'ah*-compliance of all Islamic banking products and services offered by NCB.

The *Shari'ah* Group is engaged in a variety of activities to support NCB's operational and strategy functions and those of its affiliates, including:

1. managing the relationship between the *Shari'ah* Board and NCB's operating segments;
2. ensuring the *Shari'ah*-compliance of Islamic products and services approved by the *Shari'ah* Board;
3. assisting in Islamic product development;
4. conducting research and training in Islamic banking to provide know-how in relation to the Islamic banking industry to NCB employees;
5. conducting a direct *Shari'ah* audit of the Group's Islamic activities and assisting the Internal Audit division in enhancing its capabilities to conduct *Shari'ah*-compliant audits; and
6. promoting NCB's image by participating in global Islamic banking conferences, workshops and events and building relationships with external parties such as the Kingdom's authorities, *Shari'ah* scholars and international Islamic bodies.

NCB's *Shari'ah* Board functions as an independent body carrying out its duties by a mandate from the Board. The *Shari'ah* Board is responsible for reviewing and approving each product and service presented to NCB's customers under its Islamic offerings in accordance with the *Shari'ah* Board Charter. The *Shari'ah* Board consists of three prominent scholars in the field of *Shari'ah* and Islamic economics: Sheikh Abdullah Bin Suleiman Al Manie (Chairman), Sheikh Dr Abdullah Bin Abdulaziz Al Musleh (Member) and Sheikh Dr Mohammed Ali Elgari (Member).

The *Shari'ah* Group acts as a catalyst for *Shari'ah*-compliant product development in each of NCB's operating segments, including advising on the Treasury Group's development of hedging products, the Consumer Finance Department's residential financing products and working with the CBG to provide advice on all *Shari'ah*-compliant financing.

4 – 7 – 18 Compliance Division

NCB's Compliance Division is responsible for implementing local regulatory and statutory requirements and assisting the Board, the Audit Committee, Risk Committee and Senior Management in managing and controlling NCB's compliance risk. The Compliance Division is autonomous and reports directly to the Audit Committee. Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to NCB's reputation which it may suffer as a result of its failure to comply with laws and regulations applicable to its banking activities in jurisdictions where NCB is operating. The Compliance Division also co-ordinates the establishment of corporate governance practices, the implementation of proper disclosure standards, adherence to best practices, compliance training and the management of conflicts of interest. The Anti-Money Laundering Department is part of the Compliance Division; however, it operates as an independent department within that division.

The Anti-Money Laundering Department reports regularly to the Audit Committee, as well as the Board.

The key functions of the Anti-Money Laundering Department are as follows:

- assisting the Board and Senior Management to manage risks associated with non-compliance with applicable laws and regulations in any relevant jurisdiction by notifying and advising on the ways in which those risks could be mitigated against and providing the same advice to various other NCB branches and departments;
- identifying and evaluating compliance and anti-money laundering risks associated with NCB's activities;
- ensuring the Group's complete adherence to relevant laws and regulations, including instructions issued by SAMA and laws relating to combating money laundering and financing terrorism laws in each jurisdiction in which NCB has a presence;
- proposing relevant recommendations to enhance and/or improve NCB's internal systems and controls so as to help reduce NCB's compliance, money laundering and terrorism financing risks;
- acting as a liaison between NCB and the regulators in the jurisdictions in which NCB has a presence;
- keeping up-to-date with new laws and regulations and informing the Senior Management and relevant departments for their immediate implementation;
- notifying the Board, the Audit Committee and the Risk Committee and the CEO of any breaches by NCB in respect of laws, regulations, internal policies, Board resolutions or shareholders' resolutions by issuing various compliance and Anti-Money Laundering reports as necessary;
- effecting matters resolved under resolutions of the Board or the shareholders of NCB;
- reviewing NCB's proposed new products from a compliance and anti-money laundering perspective;
- advising the Board and the Senior Management on compliance, anti-money laundering and combating terrorism finance issues;
- developing and revising the anti-money laundering policy and procedures; filing suspicious transaction reports with the relevant regulatory authorities in each jurisdiction as and when appropriate; ensuring appropriate levels of customer screening; monitoring of customer and staff accounts; ensuring that operating segments are following proper and correct 'know your client' and enhanced due diligence procedures for accounts and carrying out anti-money laundering due diligence for correspondent relationships; and related anti-money laundering tasks;
- conducting staff training in accordance with all statutory requirements for compliance, anti-money laundering and combating terrorist financing at regular intervals; and
- supervising the procedures for convening the Shareholders' ordinary and extraordinary general meetings so as to ensure compliance in the Kingdom under applicable laws and regulations.

NCB is subject to applicable laws and regulations in the Kingdom, including regulations and circulars issued by SAMA and the policies and regulations of the CMA. By virtue of its branches, representative offices and other operations and business outside of the Kingdom, NCB is also subject to regulatory requirements in a number of other jurisdictions. International sanctions, such as those imposed by the United Nations and other intergovernmental or supranational organisations, may be applicable to NCB. The scope and effect of these sanctions often varies from year to year. NCB's Compliance Division regularly monitors new sanctions and amendments to sanctions as they are announced and works with other divisions within NCB to ensure NCB is compliant with applicable sanctions. NCB screens all customers to seek to ensure that taking on such a customer or engaging in lending activities with them would not result in the breach of applicable sanctions or other laws or regulations. In particular, NCB screens customers against certain lists, including lists prepared by the US Office of Foreign Assets Control (OFAC).

4 - 7 - 19 Legal Division

The role of the Legal Division is to effectively manage all of the legal affairs of NCB and assist in minimising the legal risks to NCB's business arising out of compliance with all of the laws and regulations applicable to NCB. The Legal Division provides full support to all of the functions of NCB in order to facilitate the achievement of NCB's overall objectives. The main functions of the Legal Division are to: (i) provide legal opinions and general ongoing legal advice to all of the groups, divisions and departments of NCB; (ii) prepare, draft and review documents, contracts, resolutions, settlement agreements, important communications and NCB's standard forms and application forms; (iii) assess for legal risk new products and projects submitted by NCB's business divisions and functions; (iv) interpret new laws and regulations applicable to NCB and advise the relevant business function(s) of NCB accordingly; (v) manage all litigation and dispute resolution (whether in the Kingdom or internationally) involving NCB; (vi) represent NCB before any judicial bodies, ministries, official and unofficial bodies; (vii) register and maintain all intellectual property rights of NCB; and (viii) execute all real estate transactions including transfers in the name of REDCO.

4 - 7 - 20 Internal Audit Division

The Internal Audit Division carries out an independent assessment of the actual functioning of the overall operational risk management framework of NCB, normally once per year. The Internal Audit Division reports directly to the Audit Committee. Its main role is to provide an independent, objective assurance and consulting service to the Audit Committee designed to improve NCB's operations. Internal Audit helps NCB to accomplish its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit comprises a number of specialised departments: Credit Audit, Investigation and Fraud Prevention, Quality Assurance Planning and Development, Service Audit, Assurance Audit, Retail Audit and Special Audit. Each department carries out its respective roles and responsibilities in coordination and cooperation with other audit departments and in accordance with NCB's strategy.

4 - 8 Support Function

The support function comprises four groups being the Shared Services Group, the HR Group, the Finance Group and the Strategy and Business Development Group. Each of these groups and divisions work together in support of the other functions of the Group, as more fully described below.

4 - 8 - 1 Shared Services Group

The Shared Services Group consists of two divisions and three departments which provide shared services across the businesses of NCB, as more fully described below.

4 - 8 - 1 - 1 Information Technology Division

NCB's IT Division provides secure technology services and support to all operating segments within NCB. It seeks to ensure the provision of a secure IT environment which minimises the chances of security breaches while providing its business partners with the means and tools to introduce new electronic products through the utilisation of new technology.

NCB owns and operates two data centres in the Jeddah metropolitan area which contain a large number of operating equipment and systems in a climatically controlled environment. The two data centres are monitored 24/7 to ensure service availability and delivery according to the agreed service levels of NCB.

The Information Technology Division is part of the Shared Services Group and aims to deliver world class IT capabilities to NCB. NCB has undertaken a number of major programmes intended to further modernise its technology platform and data centres, primarily focused on improving customer satisfaction. These programmes are designed to provide a new foundation for NCB's core banking needs which will allow for accelerated system growth and change (see section 4-3-1 "*Company Description and Nature of Business – Strategy – New Operating Model*").

A major core banking system replacement programme was launched in 2013G, which involved the replacement of NCB's customer relationship management system and enterprise resource management system. The programme will integrate applications with similar functions (e.g. payments) into the core banking system, increase the level of automation within NCB with and involves an upgrade to a new network infrastructure. NCB also plans to build additional data centres in the northern area of Jeddah. The new data centre will allow the NCB's IT to achieve the highest level of Data Centre Tiering (as certified by independent advisors to world standards) that will satisfy SAMA requirements and deliver target levels of service quality and redundancy.

As a result of process improvement, NCB registered a significant fall in major IT incidents in 2013G as compared to 2012G and has since achieved a record level of stability, with six major incidents reported in the six month period ended 30 June 2014G.

4 - 8 - 1 - 2 Operations Management Division

Operations Management provides all of the back office processing requirements for the business functions of NCB. It is comprised of specific units which support both the operating channels and the operation of the products for each separate business area. Operations Management works directly with customer-facing staff to ensure that all of that particular business area's transactions are processed correctly, credit assessments are performed where required and reporting and compliance requirements are satisfied. The specific units include Corporate Lending Operations, Trade Operations, Payments Operations, Retail Lending Operations and Treasury Operations.

4 - 8 - 1 - 3 Administration Services Department

Administration Services is responsible for all aspects of NCB's facilities and support services. It manages and maintains all real estate assets and provides security, cleaning and hospitality services for branches and administrative buildings and includes an engineering team that oversees the design, construction and maintenance of branches, remittance centres, service centres and administrative buildings. This team also manages the installation and maintenance of ATMs. Administration Services also manages NCB's cash replenishment and delivery services throughout the Kingdom.

4 - 8 - 1 - 4 Enterprise Project Delivery Department

Enterprise Project Delivery provides project management services and coordinates with all relevant departments at NCB. It is responsible for the management and reporting of NCB's project portfolio so as to comply with NCB's strategic and tactical priorities. Enterprise Project Delivery is also responsible for documenting and maintaining all of NCB's policies and procedures material to ensure the accuracy of such material and its compliance with applicable regulatory requirements.

4 - 8 - 1 - 5 Information Security and Business Continuity Management Department

Information Security and Business Continuity Management is responsible for the establishment and ongoing management of NCB's information security policies, which set out how NCB protects its information technology assets from attack and misuse. It manages the education and mentoring of NCB's staff to train them in safe information security practices and also manages the external partners engaged by NCB to monitor global information security threats. Information Security and Business Continuity Management is also responsible for managing NCB's business continuity capabilities by developing the plans, processes and facilities that NCB has established to provide ongoing operational capability to NCB in the event of a disaster or any circumstances that would prevent the normal operation of NCB's head office, IT centre, regional offices or branch network. This includes the regular testing of NCB's business continuity and disaster recovery plans. Information Security and Business Continuity Management also oversees all of the risk management activities for the Shared Services Group including liaison and coordination with the Audit (internal and external) and Compliance Departments.

4 – 8 – 2 HR Group

The HR Group consists of six departments which work together in support of the other functions of NCB, as follows: (i) Talent Resourcing and Development which is responsible for the sourcing, soliciting, assessing, hiring, on-boarding, training and development of employees across all of the functions of NCB; (ii) Talent Management which is responsible for assessing and deploying NCB's employee talent, succession planning, and the performance management of NCB's employees; (iii) People Pay and Policy which analyses NCB's pay policy and develops NCB's HR policies across all functions within NCB; (iv) Employee Relations which reviews staff welfare and is responsible at NCB for the creation of a conducive work environment, the promotion of fairness and the prevention of staff abuse through ensuring compliance with statutory regulations and NCB's internal code of conduct and organising social activities; (v) Employees Services which is responsible for providing NCB's payroll service, staff-related government processing and HR system support to all functions within NCB; (vi) HR Business Partnership which is responsible for the promotion of NCB's HR policy and counselling NCB's staff on people management, employee best practices and the resolution of employee issues.

4 – 8 – 3 Finance Group

The Finance Group is primarily responsible for the integrity of NCB's financial data. Its functions include: developing NCB's financial systems; setting accounting policies and procedures; preparing budgets and forecasts; monitoring accounting entries and the accurate recording of financial transactions; reporting on financial matters to external and internal stakeholders (investors, regulators, supervisory bodies, tax authorities, rating agencies, the Board and Senior Management); producing financial analysis to support executive and strategic decision-making and; assisting Senior Management in controlling NCB's overhead costs.

The Finance Group discharges its responsibilities through the following seven specialised departments: Retail Banking Control, Corporate Banking Control, Treasury Control, Financial Control of Special Services Unit, Financial Control of Support Services, Accounting and Financial Reporting and Budget, and Information Systems.

4 – 8 – 4 Strategy and Business Development Group

The Strategy and Business Development Group has two main interconnected responsibilities: first, to continually assess NCB's market environment and devise strategies that enhance NCB's competitiveness and sustain value creation; and second, promote NCB's brand equity by conducting marketing and public relations activities and driving improvement in customer experience. The Strategy and Business Development Group comprises six departments which work together in support of the other functions of the Group, as follows: (i) Strategy and Transformation which is responsible for facilitating the development of corporate-level, group-level and business unit strategy and tactical plans; (ii) Marketing & Communication which is responsible for building a strong NCB brand and contributing to the achievement of NCB's commercial targets; (iii) Customer Services which is mainly responsible for handling and resolving all of NCB's customer complaints and requests and independently monitoring and measuring customer satisfaction; (iv) Economics which is responsible for providing NCB's functions with business insights, macro-economic forecasts, sector analysis and risk ratings and other socio-economic information required to formulate NCB's business strategies and assisting NCB in prudently managing its market and financial risks; (v) Overseas Branches which covers NCB's branches in Bahrain (Manama) and in Lebanon (Beirut); and (vi) Corporate Social Responsibility and Sustainability which delivers community uplifting programs that make a material and positive impact to the quality of lives of disadvantaged Saudi nationals and promoting NCB as a socially responsible corporate citizen within the Kingdom.

4 – 8 – 5 Awards

NCB has achieved numerous awards, classifications and recognitions over the years which most notably include, and are not limited to, those set out below for the years 2011G, 2012G and 2013G:

Table 4-15 NCB's awards for the years 2013G, 2012G and 2011G

2013G	2012G	2011G
• Best Local Bank by EMEA Finance. • Best Islamic Bank Saudi Arabia by Asset Triple A Islamic Finance Awards 2013G. • Islamic Bank of the Year by The Banker Magazine. • Top 100 Global Companies by World Finance. • Saudi CSR Award for Companies from the Jeddah Chamber of Commerce.	• The Best Bank for Super Affluent granted by Euromoney. • Best Local Bank by EMEA Finance Magazine. • Best Islamic Finance at the Asset Triple A Islamic Finance Awards. • Bank of the Year Saudi Arabia by The Banker Magazine. • CSR Award from Prince Turki Bin Nasser.	• Best Private Banking in the Kingdom by Euromoney for the sixth time. • Best Bank in Saudi by Banker Middle East. • Best Islamic Bank by Global Islamic Finance Awards. • # 1 in the Middle East and # 121 in the World according to its Tier 1 Capital by The Banker Magazine.

Source: NCB

4 – 9 Subsidiaries and Associates

4 – 9 – 1 Subsidiaries

4 – 9 – 1 – 1 The Real Estate Development Company for Management & Ownership, LLC

In addition to TFKB and NCBC, NCB also established The Real Estate Development Company ("**REDCO"**) as a Limited Liability Company registered in the Kingdom under Commercial Registration number 4030146558 on 21/11/1424H (corresponding to 13 January 2004G) with a share capital of five hundred thousand (500,000) Saudi Riyals divided into five hundred (500) shares of equal value of one thousand (1,000) Saudi Riyals each. As at 30 June 2014G, NCB has a 100% ownership interest in REDCO. The activities of REDCO primarily include keeping and managing title deeds and collateralised real estate properties on behalf of NCB, in addition to purchasing and developing lands for lease or sale, and investing in properties under developments and dealing with the real estate finance.

4 – 9 – 1 – 2 Eastgate

As at 30 June 2014G, NCB had a 64.73% indirect ownership interest in Eastgate through NCBC, a UAE-domiciled private equity firm. Eastgate is a limited liability company registered in the Cayman Islands under Commercial Registration number WK/175021 on 27 May 2008G with an authorised share capital of ten million (10,000,000) USD divided into ten million (10,000,000) shares with a par value of one (1) USD each. NCBC has a 70% direct ownership in Eastgate. Eastgate's activities involve investment, sourcing, structuring related to securities and real estate properties across global emerging markets, including the MENA region, Turkey and Asia.

4 – 9 – 2 Associates

ATC was established by NCB in December 2006G. ATC is a public Saudi Joint Stock Company registered in the Kingdom under Commercial Registration number 4030171573 on 21/7/1428H (corresponding to 4 August 2007G) with a share capital of one hundred and sixty six million, six hundred and sixty six thousand, and six hundred and seventy (166,666,670) Saudi Riyals. ATC is listed on the Tadawul and, following an initial public offering of ATC in December 2006G, NCB holds a 30% ownership interest in ATC. NCB is entitled to appoint three members of ATC's board of directors. ATC provides *takaful* insurance products and NCB has exclusive distribution rights in relation to these products in the Kingdom. ATC's market capitalisation as at 30 June 2014G was 983.3 million Saudi Riyals.

In addition to its stake in ATC, as at 30 June 2014G, NCB has an interest (60% ownership) in the Commercial Real Estate Markets Company, company registered in the Kingdom under Commercial Registration number 4030073863 on 5/4/1411H (corresponding to 24 October 1990G) with a share capital of 1,600,000,000 Saudi Riyals. NCB does not control this company due to ongoing litigation between its shareholders, as described in more detail in section 10-9 "Litigation".

As at 30 June 2014G, NCB had an interest (90% ownership) in Al Ahli Insurance Services Marketing Limited, which is a limited liability company registered in the Kingdom under Commercial Registration number 4030195150 on 21/12/1430H (corresponding to 8 December 2009G) with a share capital of five hundred thousand (500,000) Saudi Riyals divided into fifty thousand (50,000) shares of equal value, the value of each share being ten (10) Saudi Riyals.

4 – 10 Recent Developments

The Board approved, by resolution dated 14 May 2014G, the purchase of a plot of land for the establishment of a new data centre for the Group, an operational services building, and a full-service branch to replace a number of branches in proximity to the site in Northern Jeddah. The resolution also recommended the submission to the Board of offers of purchase of NCB's properties that will become vacant following completion of the new data centre and full occupancy by the relevant NCB business units of the new site.

4 – 11 Business of NCBC

NCB Capital is a Saudi Arabian closed joint stock company with commercial registration number 1010231474 issued on 26/03/1428H (corresponding to 14 April 2007G). NCB Capital's head office is located in Riyadh with a local branch in Jeddah and a foreign branch in Bahrain. In line with new requirements promulgated at the time by the CMA, in April 2007G, NCB transferred its wealth management, asset management, brokerage and investment banking activities to NCB Capital. NCBC's paid-up capital is one billion (1,000,000,000) Saudi Riyals divided into one hundred million (100,000,000) shares of equal value of ten (10) Saudi Riyals each. As at 30 June 2014G, NCB was the holder of ninety million, seven hundred and three thousand, and sixty (90,703,060) NCBC shares representing approximately 90.7% of NCBC's issued share capital.

NCBC is the largest investment company authorised by the CMA in the Kingdom by assets of investment funds under management according to data published by the Tadawul. Having originated from an established bank, NCBC enjoys close relationships with a wide base of large corporations, high net worth individuals and government entities, giving NCBC a strong capability to market investment products. NCBC has a strong client base and through a commercial relationship with NCB, has established a number of investment centres in NCB's branch network to ensure distribution of its own products and services. NCBC's staff are available within these investment centres to provide consultation services to existing and potential customers regarding their investment decisions.

NCBC is licensed by the CMA. A CMA letter dated 17/12/1427H (corresponding to 7 January 2007G), with reference number 1404/RH, notifying NCBC of the CMA Board's resolution number 7-219-2006 dated 03/12/1427H (corresponding to 24 December 2006G) (the "**CMA Resolution**") authorizes NCBC to carry out the activities of dealing, as a principal, agent, underwriter, manager arranger, adviser and custodian of financial securities. The CMA Resolution provides for a number of requirements to be satisfied by NCBC in order for NCBC to be entitled to commence business. A subsequent letter issued by the CMA dated 10/06/1428H (corresponding to 25 June 2007G) under number HRT/538 stated that NCBC may commence its operations having fulfilled the requirements under the CMA Resolution.

The Capital Markets operating segment comprises the entirety of the operations of NCBC (see section 4-6-4 "*Company Description and Nature of Business – Business of NCB – Operating Segments – Capital Markets*"). The total assets of the Capital Markets operating segment as at 30 June 2014G were 1.4 billion Saudi Riyals, representing 0.3% of the Group's total assets (compared to 0.3% as at 30 June 2013G and 0.3% and 0.3% as at 31 December 2013G and 2012G, respectively).

The operating income of the Capital Markets operating segment for the six month period up to 30 June 2014G was 394 million Saudi Riyals, representing 4.9% of the Group's operating income (compared to 4.2% for the six months ended 30 June 2013G and 4.1% and 5.7% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

The net income of the Capital Markets operating segment for the six month period up to 30 June 2014G was 204 million Saudi Riyals, representing 4% of the Group's net income (compared to 2.9% for the six months ended 30 June 2013G and 1.4% and 5.2% for the twelve month periods ended 31 December 2013G and 2012G, respectively).

4 – 11 – 1 Functions within Capital Markets

NCBC operates through four main functions: the Securities Division, the Asset Management Division, the Wealth Management Division and the Investment Banking Division, each of which is described in further detail below.

4 – 11 – 1 – 1 Securities Division

NCBC's Securities Division offers cash and margin brokerage services including execution, research, advisory and custody services. The Securities Division services various client segments (including Personal Banking Customers, Affluent Banking Customers, Private Banking Customers and institutional clients) and provides them with access to markets the Kingdom, GCC and internationally. Through the Securities Division, clients can trade in a wide range of products in various markets, including equities, fixed income (including *sukuk*), Saudi equity swaps, options, exchange traded funds and initial public offerings. The distribution channels and services offered by NCBC include online trading, interactive voice response trading, broker assisted trading and sales trading. The Securities Division also offers its clients in-house equity research specific to the Saudi market and provides various tiers of support to its clients, including a call centre, a client care team, securities product specialists and trading lounges (located in Riyadh, Khobar and Jeddah).

As at 30 June 2014G, NCBC was ranked as the third largest company for share trading in the Kingdom (according to the Tadawul's monthly report) and is regarded as an innovator in the Saudi securities marketplace, having been the first to introduce several key initiatives that shaped the Saudi securities market, including online trading with no minimum balance, free basic online service with delayed prices, and interactive voice response trading.

4 – 11 – 1 – 2 Asset Management Division

The Asset Management Division covers a wide variety of asset classes including equities, fixed income, hedge funds, private equity, and real estate that provide investors with exposure to local, regional, and international markets. Investment options are offered in both mutual fund and separately managed account (discretionary portfolio management ("**DPM**")) format. As at 30 June 2014G, the Asset Management Division had approximately 56.73 billion Saudi Riyals of assets under management. In addition to its own managed products, NCBC has relationships with leading global asset managers including the United States' Trust Company of the West and France's Amundi.

This department helps NCBC manage its international equity funds and offer its customers access to a broad range of international funds, other than its own, with the aim of creating one of the largest and most diversified *Shari'ah* fund platforms in the world. NCBC is the first Saudi asset manager to launch *Shari'ah*-compliant funds on a new Undertakings for Collective Investment in Transferable Securities (UCITS) platform, registered in Ireland (the UCITS platform is based on a set of European Union directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorisation from one member state). This is a significant innovation that NCBC hopes will boost international investor access to the Kingdom.

A. Mutual Funds

NCBC's Asset Management Division is one of the world's largest managers of *Shari'ah*-compliant mutual funds in terms of assets under management (according to data published by the Tadawul). As at 30 June 2014G, NCBC managed approximately 31.6 billion Saudi Riyals of clients' assets in mutual funds, which represents a market share of approximately 29.85% according to data published by the Tadawul. NCBC's Asset Management Division has been responsible for a number of notable achievements, including the establishment of the first mutual fund in the Kingdom in 1979G.

B. Discretionary Portfolio Management

NCBC's Asset Management Division offers DPM services for institutional and private investors. As at 30 June 2014G, NCBC managed approximately 16.75 billion Saudi Riyals in DPM mandates across a variety of strategies. Such mandates include Saudi and GCC equities (both *Shari'ah*-compliant and conventional), regional *Shari'ah*-compliant money market and fixed income assets, hedge funds, private equity, and multi-asset classes.

4 – 11 – 1 – 3 Wealth Management Division

The Wealth Management Division is the investment advisory and distribution arm of NCBC. It advises institutions, Affluent Banking Customers and Private Banking Customers, offering advice in relation to mutual funds, discretionary managed accounts, alternative products (such as funds of hedge funds, private equity and real estate), initial public offerings, private placements and brokerage services. The division primarily serves clients in the Kingdom and, selectively, GCC institutions.

4 – 11 – 1 – 4 Investment Banking Division

The Investment Banking Division focuses on providing corporate finance advice and capital raising solutions to governments, banks and financial institutions, multilateral bodies, Saudi and international business entities, family businesses and government supported entities (GSEs). The division facilitates access to the capital markets in the Kingdom for the purposes of raising funds in the Kingdom as well as providing investment banking solutions to these clients for their particular needs. The services of the Investment Banking Division include the following:

1. *Corporate Finance Advisory*: providing corporate finance advisory solutions to customers including valuations and restructuring advice, debt advisory, debt arranging, balance sheet structuring/ restructuring advice and privatisation advisory. NCBC's Investment Banking Division also brings its experience to structuring project finance solutions (including in the infrastructure space), and advising on the capital structures for real estate projects.
2. *Equity Capital Markets*: specialising in capital raisings for both public offers and private placements. Services offered by the Equity Capital Markets team include initial public offerings, secondary placements, rights issues and private placements. NCBC also acts as lead manager providing offering flotation management services on initial public offerings in the Kingdom and is one of the largest underwriters' for equity public offerings in the Kingdom.
3. *Debt Capital Markets*: providing advice in relation to the structuring and issuance of *sukuk* and bonds, including convertible bonds. From the year 2013G onwards, NCBC has been an adviser and a joint lead manager on a number of landmark transactions totalling 29.15 billion Saudi Riyals in the Kingdom's debt capital markets.
4. *Mergers and Acquisitions*: providing advice in relation to acquisitions, disposals, mergers, joint ventures, spin-offs, recapitalisations, asset swaps and strategic sales.

4 – 11 – 2 Eastgate Capital Holdings Inc.

As at 30 June 2014G, NCBC had a 70% direct ownership interest in Eastgate, a UAE-domiciled private equity firm. Eastgate's activities involve sourcing, structuring and investing in attractive private equity and real estate opportunities across global emerging markets, including the MENA region, Turkey and Asia.

4 – 12 Business of TFKB

NCB's International Banking operating segment comprises the operations of TFKB and NCB's Beirut branch, further details of which are set out in section 4-6-5 "*Company Description and Nature of Business – Business of NCB – Operating Segments – International Banking*".

In March 2008G, NCB acquired a controlling interest of 60% in TFKB. This equity stake has since been increased by NCB to 66.27% through additional capital subscriptions (as at 30 June 2014G). NCB has significant shareholder rights in TFKB, including the right to appoint five out of the seven members of TFKB's board of directors.

TFKB is incorporated in Turkey as a joint stock company registered under Commercial Registration number 401492 on 19 December 1983G. As at 30 June 2014G, TFKB's share capital is TL 1,775,000,000.

TFKB is one of four "participation" (*Shari'ah*-compliant) banks in Turkey. As at 31 December 2013G, out of 49 banks operating in Turkey (excluding three state banks), TFKB ranked 11th largest in terms of total loans, 12th largest in terms of total deposits and total assets and 8th largest in terms of net income.[40] Its asset base of TL 25.1 billion (approximately U.S.$ 11.8 billion or approximately 44.3 billion Saudi Riyals) as at 31 December 2013G has grown organically at a compounded annual rate of close to 30% over four years between 2009G and 2013G. As at 31 December 2013G, TFKB had 3990 employees.

40 Source: *BRSA Unconsolidated Reports*.

TFKB operates in accordance with the Turkish Banking Law No. 5411 and is subject to the supervision of the BRSA. TFKB has been issued with a banking license by way of a letter in the English language issued by the BRSA, numbered BDDK.UY1\94.1-1958 and dated 3 March 2006G, confirming that TFKB is active and operating under the supervision and surveillance of the BRSA as evidenced by a further letter dated 1 March 2006G issued by the BRSA also providing that TFKB is subject to the Turkish Banking Law and is under the supervision of the BRSA. In addition, TFKB possesses a 'certificate of activity' issued by the Istanbul Chamber of Commerce dated 2 April 2014G. According to the certificate, TFKB is registered as a financial institution established for the purpose of collecting funds in Turkey or abroad through special and participation accounts.

As at 31 December 2013G, TFKB had a network of 250 branches and over 415 ATMs. TFKB provides a range of *Shari'ah*-compliant products and banking services to its customers through three main operating segments which are consumer banking, corporate banking and treasury. TFKB also provides additional services through various branches including insurance agency (brokerage) services on behalf of third parties such as Eureko Sigorta, Işık Sigorta, Aviva Sigorta and Neova Sigorta, private pension insurance agency (brokerage) services on behalf of Garanti Emeklilik, stock broker agency (brokerage) services on behalf of Bizim Menkul Değerler A.Ş. and investment and funds brokerage services.

TFKB operates in accordance with the principles of interest-free banking as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending such funds through *murabah*, *tawarruq*, finance lease and profit/loss sharing partnerships. TFKB has two ways of collecting funds: current accounts and profit sharing accounts (Turkish Lira, foreign exchange, precious metal). TFKB classifies current accounts and profit sharing accounts in accordance with their maturities in its accounting system. Such accounts are categorised into five different maturity groups: (i) one month, (ii) up to and including three months, (iii) up to and including six months, (iv) up to and including one year, and (v) more than one year. TFKB depositors participate in loan portfolios provided by TFKB to its customers, and share in the profits. The strategic focus of TFKB is on SMEs and commercial customers. TFKB is also working on expanding its share of the retail market, which it believes will be a growth market given Turkey's large population.

TFKB is incorporated in Turkey as a joint stock company in accordance with the provisions regarding immediate incorporation of the Turkish Commercial Code No. 6762 which has been amended and replaced by Law No. 6102 dated 14 February 2011G. TFKB operates in accordance with Banking Law No. 5411 and is subject to supervision of the BRSA.

TFKB commenced operations under the commercial name "Anadolu Finans Kurumu A.S." and was controlled by the Boydak Group. Anadolu Finans Kurumu A.S, through a decision of the board of directors No. 1047 dated 31 May 2005G, decided to merge with "Family Finans Kurumu A.S" which was at the time controlled by the Ulker Group. As a result of the merger, Family Finans Kurumu A.S was dissolved and merged into Anadolu Finans Kurumu A.S. The BRSA approved the merger on 20 October 2005G and registered TFKB as a participation bank in accordance with the Banking Law No. 5411.

The commercial name of TFKB was changed to "Türkiye Finans Katılım Bankası A.S." on 30 November 2005G. On 31 March 2008G, NCB acquired the shares representing 60% of the total issued share capital of TFKB from Boydak Group and Ulker Group, a transaction that was approved by the BRSA on 28 February 2008G. The share capital of TFKB was increased by TL 975,000, from TL 800,000 to TL 1,775,000,000.

4 - 12 - 1 Strategy

TFKB's primary objective is to increase its loan market share to grow above the market average. TFKB' strategy to achieve its objective is set out below:

- "Vision 2017G" plan: TFKB aims to achieve a 2% market share of total financing in respect of NCB's total lending in Turkey by 2017G (compared to 1.7% as at 31 December 2013G), principally by expanding its branch network (particularly to penetrate the Consumer Banking and SME Banking markets) and increasing its deposit base. As at 31 December 2013G, TFKB had 250 branches throughout Turkey.
- Focus on core businesses, including income from fees and commissions through providing appropriate services to each segment of customers.
- Further penetration in Consumer Banking and SME Banking: Consumer banking and SME banking are the two cornerstones of TFKB's growth plans in the medium-term. TFKB has been predominantly active in the commercial banking sphere which is the traditional stronghold of participation banks in Turkey.

As at 31 December 2013G, consumer bank financing accounts for 4% of participation bank financing in Turkey compared to 34% for conventional banks. Accordingly, TFKB's management believe there is an opportunity for participation banks to increase growth in the consumer banking business and TFKB plans to tap the large and growing Turkish retail banking market by deepening its relationships with the "potential affluent" segment (clients with between TL 50,000 (approximately 88,100 Saudi Riyals) and TL 500,000 (approximately 881,000 Saudi Riyals)), cross-selling new products to the bank's existing customers and increasing its branch footprint as well as increasing penetration using alternative distribution channels. To achieve this, TFKB intends to expand and diversify its portfolio of products, both deposit based products and lending products, to attract retail customers, to increase the loyalty of existing customers and expand its customer base.

- SME banking is a fast-growing banking segment in Turkey, particularly in relation to manufacturing SMEs which are expected to grow with Turkey's anticipated increased manufacturing output over the coming years. Furthermore, TFKB's SME Banking segment has achieved higher profit margins when compared to its other banking segments and SMEs enable TFKB to better diversify geographically as well as industry-wide. TFKB intends to focus on building relationships with SMEs to increase returns from existing relationships as well as attracting greater numbers of SME customers. Currently, the SME segment is considered to be TFKB's fourth main operating segment.
- Diversification of Assets and Liabilities: The introduction of revenue indexed bonds has given participation banks, which are constrained to holding only Shari'ah-compliant assets, more options for diversification. TFKB participates in a number of initiatives aimed at the development of a secondary market for such products, which includes liaising with the relevant regulatory authorities in Turkey to allow retail clients to have direct access to such products. TFKB's balance sheet growth traditionally had been limited to the collection of funds through deposits. Consequently, TFKB prioritises access to funds from Gulf countries and other regions to diversify its funding sources.
- Focus on Alternative Distribution Channels: TFKB aims to further develop and utilise ADCs to include all key functionalities and provide a convenient and intuitive customer experience. TFKB also aims to use ADCs more efficiently in sales and marketing activities as well as attracting customers through social media.

4 – 12 – 2 Functions within TFKB

TFKB operates through three main departments: Consumer Banking, Corporate Banking and Treasury, each of which is described in further detail below.

4 – 12 – 2 – 1 Consumer Banking

Consumer Banking's core business includes consumer lending, current accounts and consumer products which are offered in accordance with *Shari'ah* principles. As at 31 December 2013G, Consumer Banking served approximately 2.5 million customers. Consumer products include investment products, credit cards, personal credits, and collection and payment systems.

Consumer Banking also focuses on developing innovative products to complement and add value to its existing product base. TFKB has recently brought several new products to the market, including Finansör (a credit card product, which gives customers sufficient flexibility to allow purchases of a wide range of products in a *Shari'ah*-compliant manner together with a 36-month payment option), specially designed gram bars (these are designer gold bars to customer specifications produced by Istanbul Gold Refinery from 1 to 20 gr.), "Instant limit" (a "pre-approved finance" limit which the Bank provides after assessing the customer's creditworthiness; limits are assigned for Car Finance, PF and Mortgage without any application process (customers are made aware of these pre-approved limits through SMS, email and internet)), "Quick credit" (a dealer credit system that provides loans to customers with the use of non-branch banking processes, through online assessment, onsite availability of approval and monitoring applications), Haremeyn cards (a type of card that provides customers with discount deals, free cash advances, *Hajj* and *Umrah* travel and assistance services and emergency and concierge services) and paid military service products (a commodity *murabaha* product that can be used to release Turkish male citizens from military service obligations. This product is offered to customers only during certain periods depending on directions from the Turkish Government). TFKB's retail products include mortgage, vehicle, and consumer products. As at 31 December 2013G, the total retail financing of TFKB was TL 4.02 billion (or approximately 7.1 billion Saudi Riyals).

TFKB conducts its consumer banking operations through its 250 branches located throughout Turkey, as well as its ADCs including ATMs, internet banking, 24-hour telephone banking, and POS terminal payment locations.

A. Consumer Banking Products

TFKB offers its customers a range of retail products, including:

1. Current accounts, TL/U.S. dollar/Euro denominated participation accounts, gold accounts, investment funds, private pension schemes and insurance products;
2. consumer loans, mortgages and car financing; and
3. credit cards.

B. Customers

Consumer Banking customers are categorised primarily based on the amount of such customers' deposits with TFKB and the amount of total credit extended to them. As the status of the customer improves, TFKB offers the customer a wider variety of products with more attractive terms, thereby encouraging customers to concentrate their banking business with TFKB.

Consumer Banking primarily targets professionals that use TFKB's services primarily for their non-business related banking needs. For the twelve month period ended 31 December 2013G, TFKB provided Consumer Banking services to approximately 2.5 million individuals.

As at 31 December 2013G, Consumer Banking accounted for 31.4% of TFKB's operating income.

4 - 12 - 2 - 2 Corporate Banking

Corporate Banking provides banking services for medium and large establishments and companies including all standard credit-related products and financing products in compliance with *Shari'ah* principles. It also offers its customers international banking services. Corporate Banking was established to offer project-based solutions to companies with a view to becoming a long-term strategic business partner and principal bank of such companies.

The Corporate Banking segment is divided into two principal areas:

Entrepreneur Business: focuses on granting cash loans and non-loan products including financing goods and services, cash management, commercial credit card facilities, foreign trade and financing to (i) small sized retail business enterprises with an annual turnover of less than TL 2,000,000 (or approximately 3.53 million Saudi Riyals) and where the level of credit provided is below TL 250,000 (or approximately 441,545 Saudi Riyals); and (ii) to small and medium sized retail enterprises with an annual turnover of between TL 2,000,000 (or approximately 3.53 million Saudi Riyals) and TL 15 million (or approximately 26.49 million Saudi Riyals) and where the level of credit provided is between TL 250,000 (or approximately 441,545 Saudi Riyals) and TL 5 million (or approximately 8.83 million Saudi Riyals).

Commercial Business: focuses on granting of loans, other credit facilities and banking services, including international banking services, (i) to commercial clients with an annual turnover of between TL 15 million (or approximately 26.49 million Saudi Riyals) and TL 150 million (or approximately 264.95 million Saudi Riyals) and where the level of credit provided is greater than TL 5 million (or approximately 8.83 million Saudi Riyals), and (ii) to corporate clients with an annual turnover in excess of TL 150 million (or approximately 264.95 million Saudi Riyals).

A. Corporate and Commercial Banking in Participation Banks

In accordance with the principles underlying TFKB's participation banking status, its financings are made for the purposes of "production support", a term particular to participation banks. In this context, production support is used to describe tangible assets used by a business (i) in its operations including, among other things, raw materials, machinery, tools, vehicles and equipment and (ii) for the payment of certain service providers, so long as such services (such as installation services) are provided in connection with the acquisition of tangible assets.

As a participation bank, TFKB does not provide credits to fund a business' general working capital which does not have any underlying assets. Instead, when a financing is extended, the proceeds are given directly to the vendor or service provider subject to the transaction, rather than to the customer. In a typical *murabaha* financing transaction for instance, the corporate customer applies for credit for the purpose of purchasing a product/service that it will use in its business. If the credit is granted, TFKB buys the product directly from the vendor and sells this product/service for credit at a marked-up price to TFKB's corporate customer. The customer repays the principal of the credit plus the fixed mark-up profit element through instalment payments made over time. TFKB also offers credits in *istisna'a* (akin to procurement) transactions where the product being purchased by the customer does not yet exist at the time the credit is granted.

Unlike its retail customers, TFKB's corporate customers do not have the legal right to pre-pay their credit obligations. Under certain circumstances, however, TFKB may permit a corporate customer to pre-pay such obligations. In such cases, in addition to requiring pre-payment of 100% of the principal of the credit, TFKB also requires a small percentage of the future scheduled fixed mark-up payments as an "early payment fee".

B. Corporate Banking Products, Services and Approaches

Banking Clients designs and offers business solutions to SMEs as well as large institutional corporate entities (operating primarily in the manufacturing, construction, wholesale and trade industries) through dedicated client care teams. Operating within a commission-free banking framework, Corporate Banking seeks to provide innovative, practical and cost-effective financing solutions for the specific requirements of its corporate customers. TFKB's principal commercial products and services are categorised as cash loans and non-cash loans.

C. Foreign Trade and Exchange Services

TFKB has continued to act as an intermediary in international loans in order to provide cost-effective and long-term financing resources to its customers. In addition to Export Credit Agency ("**ECA"**) loans, the Saudi Export Programme ("**SEP"**), the International Islamic Trade Finance Corporation ("**IITFC"**) and the GSM (a U.S. export credit guarantee programme) loans were also introduced for use by TFKB's customers. SEP was set up for the purpose of providing low cost financing resources for companies importing non-oil products from the Kingdom. The IITFC is a subsidiary of the Islamic Development Bank whose primary objective is to facilitate intra-trade among the Islamic Development Bank's member countries using *Shari'ah*-compliant instruments and it is mandated to mobilise funds from the market to complement its financing requirements. In addition, through arrangements between TFKB and the IITFC, TFKB offers its corporate customers a method of financing foreign trade transactions. In respect of its forward foreign exchange purchase and sale operations, TFKB provides its customers with the ability to conduct foreign currency purchasing or selling operations through the entry into forward swap arrangements which protect its customers against negative foreign exchange price fluctuations that may arise in the future. Banking services on the basis of Russian Roubles are continued to be provided by TFKB during 2014G to effect currency exchanges for the benefit of its customers.

D. Customers

For the twelve month period ended 31 December 2013G, TFKB had 26,902 Commercial Business customers amounted to 26,902 and Entrepreneur Business customers amounted to 243,123.

As at 31 December 2013G, Corporate Banking accounted for 56% of TFKB's operating income.

4 - 12 - 2 - 3 Treasury

Treasury focuses on: (i) providing a diverse range of treasury products and services, including money market and foreign exchange services to TFKB's customers; (ii) carrying out investment and trading activities, both local and international, on behalf of TFKB; and (iii) managing TFKB's liquidity and market risk. Treasury also has a support function in relation to product control and management.

Treasury has played a significant role in the increase of the profitability of TFKB, in addition to the realisation of foreign exchange targets and the effective management of TFKB's liquidity and foreign currency position.

A. Treasury Products and Services

Treasury markets the treasury products that TFKB offers to customers as well as conducting proprietary trading for TFKB itself. These products include currency spot trading, precious metals trading, *sukuk*, lease certificates and currency forwards and swaps. Treasury also contributed to the increase in TFKB's customer base through its competitive currency policy whereby foreign currencies were offered to customers at favourable rates. TFKB also concentrated on marketing activities by explaining the treasury products to its customers, with an emphasis being placed on meeting customer requirements.

B. Liquidity and market risk management

Treasury is responsible for managing TFKB's liquidity risk and acts under the supervision of the TFKB ALCO.

Treasury receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within TFKB as a whole. The liquidity requirements of business departments are met through short-term loans from TFKB to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of TFKB. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. TFKB heavily relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a significant proportion of them are repayable on demand. The short-term nature of these deposits increases TFKB's liquidity risk and TFKB actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

As at 31 December 2013G, Treasury products and services accounted for 12.6% of TFKB's operating income.

5. DIRECTORS, SENIOR EXECUTIVES AND CORPORATE GOVERNANCE

5 – 1 Management Structure

NCB's main management structure consists of its Board, an executive committee (the "**Executive Committee"**) and a team of executive officers comprising Senior Management.

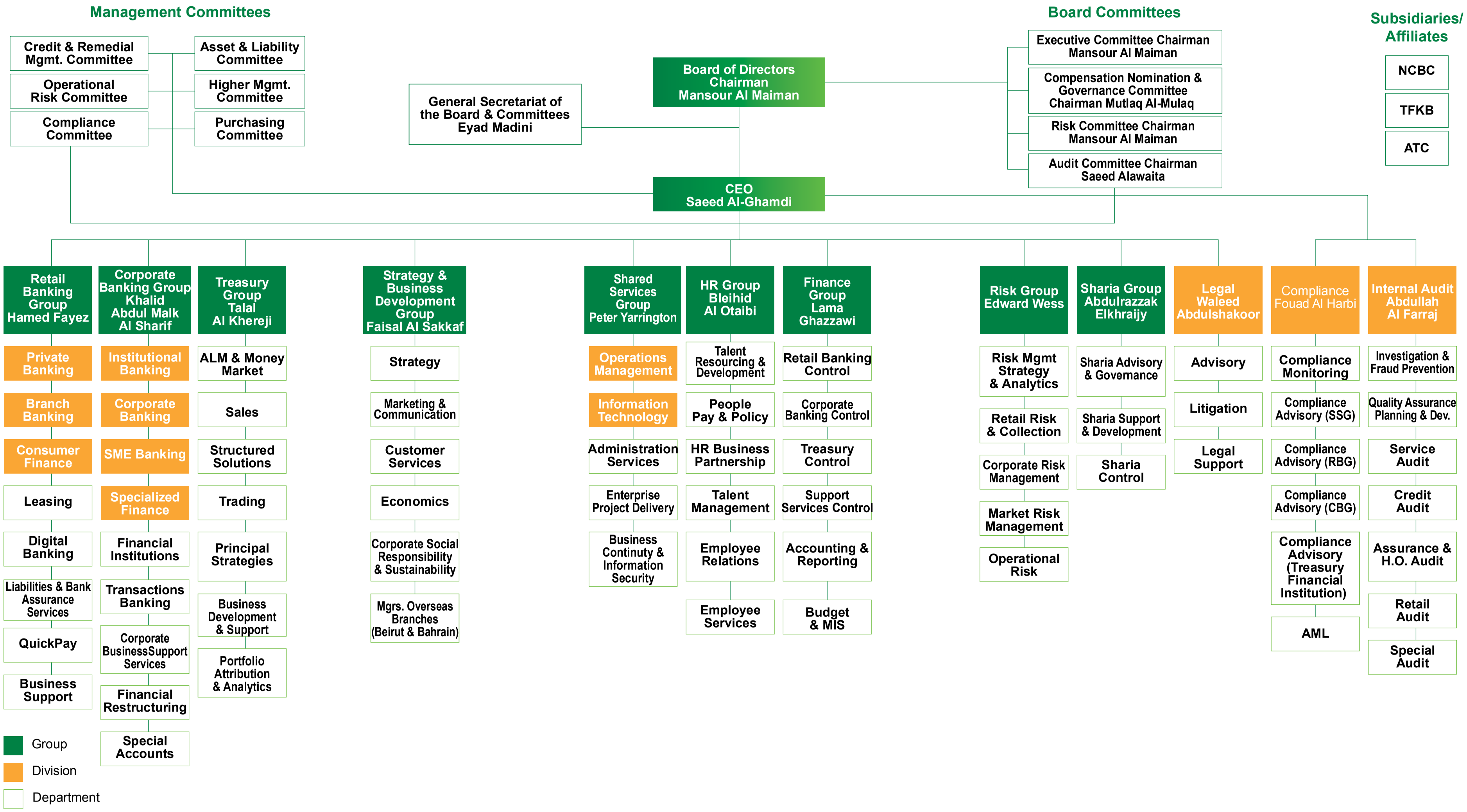
NCB has a clear organisational structure, headed by the Board and supported by Senior Management. The overall direction, supervision and control of NCB are the ultimate responsibility of the Board. The Board has delegated responsibility for overall management of NCB to Senior Management, headed by the Chief Executive Officer (the "**CEO"**). The principal role of the Board is to oversee implementation of NCB's strategic initiatives and its functioning within the agreed framework in accordance with relevant statutory and regulatory structures.

There are a number of other committees within NCB, in addition to the Executive Committee, which report to the Board and are responsible for dealing with a range of operational and business matters including credit decisions and credit risks, general risk tolerance and strategy, the supervision of internal and external auditing and IT strategy and investment decisions. For a more comprehensive description of these committees, see section 5-4 "*Directors, Senior Executives and Corporate Governance – Board Committees*".

Managing the day-to-day operations of NCB is the responsibility of the Chief Executive Officer of NCB, Mr. Saeed M. AlGhamdi, and other senior members of Senior Management to whom the Board has delegated executive powers.

The following chart sets out NCB's organisational structure:

Chart 5-1 NCB's organisational structure



Source: NCB

5 - 2 Board of Directors and Secretary of the Board

NCB operates under the direction of its Board which, in accordance with the Companies Regulations and its Bylaws, comprises nine members (the "**Directors"**), including the Chairman and the Chief Executive Officer.

The Directors are appointed for three year terms, which are staggered, and all Directors nominated by NCB's Shareholders must be approved by SAMA prior to their appointment. All decisions taken by the Board are in accordance with the authority delegated to it by NCB's Shareholders. The Board is responsible for taking all the decisions of NCB other than those matters reserved to the Shareholders pursuant to the Bylaws or the law. Any resolution that requires approval by the General Assembly must be approved by the Ministry of Commerce and SAMA.

The following table sets out the names of the members of the Board and the Secretary of the Board as at the date of this Prospectus.

Table 5-2 Members of the Board as at the date of this Prospectus

Name	Title	Status	Board member since	Age	Nationality	Direct Shareholding (%)		Indirect Shareholding (%)	
						Pre Offering	Post Offering	Pre Offering	Post Offering
Mansour S. Al Maiman	Chairman	Non-Executive	1 May 2012G	63	Saudi	Nil	Nil	Nil	Nil
Saeed M. Al-Ghamdi	Director and Chief Executive Officer	Executive	1 March 2013G	51	Saudi	0.0001	0.0001	Nil	Nil
Mutlaq A. Al-Mutlaq	Director	Non-Executive	16 June 1997G	75	Saudi	0.0001	0.0001	0.0208	0.0208
Abdulrahman M. Al Mofadhi	Director	Non-Executive (PIF representative)	1 May 2012G	58	Saudi	Nil	Nil	Nil	Nil
Abdulaziz A. Al-Zaid	Director	Non-Executive (GOSI representative)	23 August 1999G	61	Saudi	Nil	Nil	Nil	Nil
Khalid A. Al Arfaj	Director	Independent	1 May 2012G	44	Saudi	Nil	Nil	Nil	Nil
Saad S. Alrwaita	Director	Independent	1 May 2012G	54	Saudi	Nil	Nil	Nil	Nil
Yousef A. Al Maimani	Director	Independent	1 May 2012G	59	Saudi	Nil	Nil	Nil	Nil
Ibrahim M. Al Romaih	Director	Non-Executive	15 November 2009G	59	Saudi	Nil	Nil	Nil	Nil

Source: NCB

The Secretary of the Board is Mr. Eyad I. Madini

Under article 68 of the Companies Regulations and in accordance with the Bylaws, each Director must own shares in NCB with a value of no less than 10,000 (ten thousand) Saudi Riyals (the "**Qualification Shares"**). Article 68 further requires that the Qualification Shares be deposited with a local bank designated by the Minister of Commerce within 30 days of a Director's appointment and blocked from trading until the end of the limitation period under article 77 of the Companies Regulations for claims against members of the Board or until any claims raised under that article are resolved. As at the date of this Prospectus, each Director had deposited his Qualification Shares with The Saudi Investment Bank by the relevant deadline.

The business address of each of the Directors is The National Commercial Bank, P.O. Box 3555, Jeddah 21481, Kingdom of Saudi Arabia.

The experience, qualifications and the current and other positions of each of the Directors and the Secretary of the Board are set out below:

5 – 2 – 1 Mansour S. Al Maiman, Chairman

Mr. Al Maiman is currently Chairman of the Board, the Executive Committee and the Risk Committee of NCB and is a non-executive director. Mr. Al Maiman was appointed to the Board on and has been the Chairman of the Board since 1 May 2012G. Mr. Al Maiman is a Saudi national and, as at the date of this Prospectus, is 63 years old.

Details of Mr. Al Maiman's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1980G	Master's Degree	Business Administration	University of Dallas, Texas, USA
1973G	BSc Degree	Accountancy & Business Administration	King Saud University, Riyadh, Saudi Arabia

Mr. Al Maiman completed his undergraduate degree in Accountancy and Business Administration from King Saud University in 1973G and his post-graduate MBA at the University of Dallas in 1980G.

Mr. Al Maiman was appointed to the general secretariat of PIF in 1973G and subsequently became PIF's assistant secretary general. In 1993G, Mr. Al Maiman was appointed as assistant undersecretary for budget and organization at the Saudi Ministry of Finance and National Economy from 1993G to 1998G. In 1998G, Mr. Al Maiman was appointed secretary general of PIF and remained in this position until his retirement from the governmental sector in 2012G.

Mr. Al Maiman was a member of the board of directors of Saudi Telecom Company from 1998G until 2009G and, the Arab Authority for Agricultural Investment and Development from 2000G until 2008G. He has also served as a member of the board of directors of the Saudi Bangladeshi Investment Company from 1984G to 1990G, Saudi Egyptian Company for Industrial Investments from 1989G to 1997G, Saudi House for Investment Services from 1993G to 1997G, General Organization for Social Insurance from 1994G to 1997G, Petromin from 1994G to 1997G, Qassim Cement Company from 1990G to 1998G, Saudi Egyptian Construction Company from 1997G to 2000G, Eastern Province Electricity Company (SCECO) from 1997G to 2000G, and Saudi Arabian Public Transportation Company (SAPTCO) from 1998G to 2001G.

Mr. Al Maiman has also served as a member of the board of directors of several banks, including, Saudi Credit Bank from 1988G to 1991G, Saudi Cairo Bank from 1988G to 1994G, Riyad Bank from 2001G to 2007G and as the vice chairman of Gulf International Bank B.S.C. from 2009G until 2012G.

Mr. Al Maiman currently represents NCB as the chairman of the board of NCB Capital.

Outside NCB, Mr. Al Maiman currently also sits on the board of the Saudi Arabian Mining Company (Ma'aden), the Saudi Arabian Investment Company (Sanabel), as well as the Saudi Railway Company (SAR) and Tadawul Real Estate Company as chairman of their board.

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2013G	Chairman	NCBC	Closed Joint Stock Company	Capital Markets
2012G	Member	The Saudi Arabian Investment Company (Sanabil)	Closed Joint Stock Company	Multi-Investments

Start Date	Position	Name	Type of Legal Entity	Sector
2012G	Chairman	Tadawul Real Estate Company	Saudi Limited Liability Company	Real Estate Investments
2008G	Member	Saudi Mining Company (Ma'aden)	Public Joint Stock Company	Industrial Investment
2007G	Chairman	Saudi Railway Company (SAR)	Closed Joint Stock Company	Transport

Professional experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2009G	2012G	Member	Gulf International Bank	Closed Joint Stock Company	Financial services
2007G	2014G	Member	Saudi Stock Exchange (Tadawul)	Closed Stock Company	Financial Services
2005G	2011G	Member	Southern Province Cement Co.	Joint Stock Company	Cement
1998G	2009G	Member	STC	Joint Stock Company	Telecommunications

5 - 2 - 2 Saeed M. AlGhamdi, Director - Chief Executive Officer

Mr. AlGhamdi is currently a Director and the CEO of NCB. He is also a member of the Executive Committee and the Risk Committee and chairs the Higher Management Committee (the "**HMC**"), the ALCO and the CRMC. Mr. AlGhamdi joined NCB as the CEO and as a member of the Board on 1 March 2013G. Mr. AlGhamdi is a Saudi national and, as at the date of this Prospectus, is 51 years old.

Details of Mr. AlGhamdi's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1987G	BSc Degree	Computer Science and Engineering	King Fahd University of Petroleum and Minerals, Dhahran, Saudi Arabia

After completing his Bachelor in Computer Science and Engineering from King Fahd University of Petroleum and Minerals in 1987G, Mr. AlGhamdi began his career with the Ministry of Defence and Aviation. In 1991G he moved to Al Rajhi Bank where he held a number of leading positions including: Chief Information Officer (CIO), Chief Operating Officer (COO), General Manager - Retail Banking Group, and Vice President of Al Rajhi Bank. He was also a member of the Board of Directors of Al Rajhi Bank - Malaysia, Al Rajhi Capital and Al Rajhi Takaful.

During 2012G and 2013G, he worked as an advisor to His Excellency the Governor of SAMA, and as an advisor to the Chairman of the Board of Directors of NCB.

Currently, Mr. AlGhamdi also represents NCB as Vice Chairman of the Board of TFKB and as Chairman of the Executive Committee of TFKB.

Outside NCB, he is a member of the worldwide MasterCard Middle East & Africa Advisory Board. He is also a member of the board of Injaz-Saudi Arabia, one of the institutions of civil society that focuses on the development of students in the Kingdom and prepares them for the labour market.

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2013G	Vice Chairman	TFKB	Closed Joint Stock Turkish Bank	Banks and Financial Services
2013G	Member	Injaz-Saudi Arabia	Non-profit Saudi Organization	Civil society
2013G	Member	MasterCard Middle East & Africa Advisory Board	American Public Joint Stock	Financial Services

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2009G	2012G	Member	Al Rajhi Takaful	Public Joint Stock Company	Insurance
2008G	2012G	Member	Al Rajhi Capital	Closed Joint Stock Company	Financial Services
2007G	2012G	Executive Vice President	Al Rajhi Bank	Public Joint Stock Company	Banks and Financial Services
2006G	2012G	Member	Al Rajhi Bank Malaysia	Malaysian Limited Company	Financial Services

5 – 2 – 3 Mutlaq A. Al-Mutlaq, Director

Mr. Al-Mutlaq is currently a non-executive Director and is a member of the Executive Committee and the Chairman of the Compensation, Nomination and Governance Committee. Mr. Al-Mutlaq was appointed to the Board on 16 June 1997G. Mr. Al-Mutlaq is a Saudi national and, as at the date of this Prospectus, is 75 years old.

Details of Mr. Al-Mutlaq's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1378H	High School	General	N/A

Between 1975G and 1979G, Mr. Al Mutlaq served on the board of Saudi Arabian Airlines and was a member and vice chairman of the Riyadh Chamber of Commerce and Industry from 1978G to 1993G.

Outside NCB, Mr. Al Mutlaq sits as vice chairman of the board of the Al Mutlaq Group, a family holding company with diverse investments and chairman of Al-Jazeera Corporation Press, Printing and Publishing.

Other positions

Start Date	Position	Name	Type of Legal Entity	Sector
2000G	Chairman	Al Jazirah Corporation for Press, Printing and Publishing	Closed Joint Stock Company	Journalism and Media
2006G	Vice Chairman	Al-Mutlaq Group Company	Closed Joint Stock Company	Investment

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2006G	2013G	Managing Director	Al-Mutlaq Group Company	Closed Joint Stock Company	Investment
1978G	1993G	Vice Chairman	Riyadh Chamber of Commerce and Industry	Civil society Organization	
1975G	1979G	Member	Saudi Arabian Airlines	Closed Joint Stock Company	Transport

5 – 2 – 4 Abdulrahman M. Al Mofadhi, Director

Mr. Al Mofadhi is currently a non-executive Director and a member of the Compensation, Nomination and Governance Committee and the Risk Committee and is a representative of PIF on the Board. Mr. Al Mofadhi was appointed to the Board on 1 May 2012G. Mr. Al Mofadhi is a Saudi national and, as at the date of this Prospectus, is 58 years old.

Details of Mr. Al Mofadhi's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1984G	Master's Degree	Economics	Central Michigan University, Mount Pleasant, Michigan, USA
1979G	BSc Degree	Economics	King Saud University, Riyadh, Saudi Arabia

Mr. Al Mofadhi completed his undergraduate degree in Economics at King Saud University in 1979G and his master's degree in Economics at Central Michigan University in 1984G.

Mr. Al Mofadhi's career includes working as the Kingdom's executive director on the boards of the World Bank Group and related institutions, including the International Bank of Reconstruction and Development, the International Development Agency, the International Finance Corporation and the Multilateral Investment Guarantee Agency. Mr. Al Mofadhi held several positions during his tenure from 1997G until 2012G. He was also an advisor to the Kingdom's executive manager from 1997G until 2000G. Further, he held various specialised and managerial roles at the Saudi Development Fund from 1979G until 1997G.

Outside NCB, Mr Al Mofadhi is the acting secretary general of PIF and the chairman of the Saudi Real Estate Company, Dar AlTamleek, and National Shipping Company of Saudi Arabia (Bahri). He also sits on the board of the Saudi Stock Exchange Company (Tadawul).

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2014G	Chairman	The National Shipping Company of Saudi Arabia (Bahri)	Public Joint Stock Company	Transport
2013G	Chairman	Saudi Real Estate Co. (Akaria)	Public Joint Stock Company	Real Estate Development
2013G	Member	Saudi Stock Exchange (Tadawul)	Closed Joint Stock Company	Financial Services
2013G	Chairman	Dar Al Tamleek Co.	Closed Joint Stock Company	Real Estate Development
2012G	Acting Secretary General	PIF	Government	Financial Services

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1997G	2012G	Executive Manager	World Bank	International Organisation	International Development Bank

5 - 2 - 5 Abdulaziz A. Al-Zaid, Director

Mr. Al-Zaid is currently a non-executive Director representing GOSI and a member of the Executive Committee. Mr. Al-Zaid was appointed to the Board on 23 August 1999G. Mr. Al-Zaid is a Saudi national and, as at the date of this Prospectus, is 61 years old.

Details of Mr. Al-Zaid's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1975G	BSc Degree	Civil Engineering	King Fahd University of Petroleum and Minerals, Dhahran, the Kingdom

Mr. Al Zaid has an undergraduate degree in Civil Engineering from King Fahd University of Petroleum and Minerals have graduated in 1975G.

Mr. Al Zaid was a member of the board of directors of Saudi Basic Industries Corporation (SABIC) from 2012G to 2013G, a member of the board of Granada Investment Centre from 2002G to 2012G and a member of the board of Al Qaseem Cement Company from 1987G to 2012G. He held several titles at GOSI, including investment management engineer from 1975G until 1983G, project administration manager from 1983G until 1992G, general projects manager from 1992G until 2005G, and assistant investment officer from 2005G until 2013G.

Mr. Al Zaid currently represents NCB on the board of NCB Capital.

Outside NCB, Mr. Al Zaid is a member of the board of directors of DAEM Real Estate Investment and the Company for Cooperative Insurance (Tawuniya).

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2014G	Member	The Company for Cooperative Insurance (Tawuniya)	Public Joint Stock Company	Cooperative Insurance
2013G	Deputy Chairman of the Board	NCB Capital	Closed Joint Stock Company	Financial Services
2013G	Deputy Chairman of the Board	DAEM Real Estate Investment	Closed Joint Stock Company	Real Estate Investment

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2002G	2013G	Chairman	Granada Investment Centre	Government (GOSI)	Multi-Investment
2012G	2013G	Member	Saudi Basic Industries Corporation (SABIC)	Public Joint Stock Company	Industrial Investment
1987G	2012G	Member	Al Qaseem Cement Company	Public Joint Stock Company	Cement
2005G	2013G	Assistant Investment Officer	GOSI	Government	Government
1989G	1999G	Member	National Tourism Company	Limited Liability Company	Real estate
1996G	1999G	Member	Alihsa Medical Services Company	Closed Joint Stock Company	Healthcare

5 – 2 – 6 Dr. Khalid A. Al Arfaj, Director

Dr. Al Arfaj is currently an independent Director and a member of the Risk Committee, the Audit Committee, and the Compensation, Nomination and Governance Committee. Dr. Al Arfaj was appointed to the Board on 1 May 2012G. Dr. Al Arfaj is a Saudi national and, as at the date of this Prospectus, is 44 years old.

Details of Dr. Al Arfaj's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
2009G	PhD	Information and Computing	University of Bradford, UK
2003G	Master's Certificates	Project Management	George Washington University, USA
2002G	Master's Degree	Systems Engineering	King Saudi University, Riyadh, Saudi Arabia
1994G	Bachelor's Degree	Systems Engineering	King Fahd University of Petroleum and Minerals, KSA

Dr. Al Arfaj completed his undergraduate degree in Systems Engineering at King Fahd University of Petroleum and Minerals in 1994G. Dr. Al Arfaj also holds a master's degree in Systems Engineering from King Saud University which he received in 2002G, a master's certificate in Project Management from George Washington University (USA) which he received in 2003G and a PhD in Information and Computing from the University of Bradford (UK) which he received in 2009G.

Dr. Al Arfaj was a senior engineer with Hughes Arabia from 1994G to 2002G. He then held the position of business development manager with the military business unit of Advanced Electronics Company between 2003G and 2004G and the position of department director with the Ministry of Foreign Affairs between 2004G and 2008G.

Outside of NCB, Dr. Al Arfaj also holds the position of executive director of the centre for information technology and communications at the Rayadah Investment Company, which is entirely owned by PPA.

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2008G	Information Communication Technology Center Executive Director	Alraidah Investment Company	Closed Joint Stock Company	Real Estate Development

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2003G	2008G	Director of Technical Communications and Networking	Ministry of Foreign Affairs – UNDP	UNDP	Government
2003G	2004G	Business Development Manager, Military Business unit	Advanced Electronics Company	Limited Liability	Technologies manufacturing
1994G	2002G	Senior Engineer	Hughes Arabia Limited (HAL)	Prime Limited Liability	Communications

5 – 2 – 7 Prof. Dr. Saad S. Alrwaita, Director

Prof. Dr. Alrwaita is currently an independent Director and chairman of the Audit Committee. Prof. Dr. Alrwaita was appointed to the Board on 1 May 2012G. Prof. Dr. Alrwaita is a Saudi national and, as at the date of this Prospectus, is 54 years old.

Details of Prof. Dr. Alrwaita's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1993G	Doctorate Degree	Accounting	University of Colorado, USA
1987G	Master's Degree	Accounting	University of Miami, USA
1983G	BSc. Degree	Accounting	King Saud University, Riyadh, Saudi Arabia

Dr. Alrwaita received his undergraduate degree in Accounting from King Saud University in 1983G. He completed his master's degree in Accounting at the University of Miami in 1987G and his PhD in Accounting from the University of Colorado in 1993G.

Outside NCB, Dr. Alrwaita is a board member and audit committee member at the Saudi Research Marketing Group and the National Shipping Company of Saudi Arabia (Bahri). Dr. Alrwaita is a member of the audit committee at the PPA, a member of the appeals committee for zakat tax at the Ministry of Finance, a member of the scientific council at the General Organization for Technical Education and Vocational Training, a member of the advisory boards of the Arab Journal of Accounting and the Journal of Accounting Research. He is also the chairman of the continuing education and training committee at the GCC Organization for Accounting and Auditing and the exam committee at Saudi Organization of Certified Public Accountants ("**SOCPA**").

Dr. Alrwaita is also the vice-rector of administrative and financial affairs and a member of the board of trustees at Prince Sultan University.

Professional Experience

Start Date	Position	Name	Type of Legal Entity	Sector
2012G	Chairman of the Audit Committee	NCB	Closed Joint Stock Company	Banks and Financial Services
2006G	Audit Committee Member	PPA	Government	Government
2003G	Chairman, Exam Committee	SOCPA	Professional Organization	Quasi-Governmental
2008G	Chairman of the Board of Directors of Rana Saudi Equity Fund	Rana Investment Company	Closed Joint Stock Company	Financial Services
2014G	Audit Committee member	The National Shipping Company of Saudi Arabia (Bahri)	Public Joint Stock Company	Transport
2009G	Chairman of the Audit Committee	The Saudi Group for Research & Marketing	Public Joint Stock Company	Media and Publishing

Other Positions

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2008G	2011G	Audit Committee Member	Saudi Arabian Mining Company (Maaden)	Public Joint Stock Company	Industrial Investment
1994G	1998G	Member of the Board of Directors of Research Centre	College of Administration Science - King Saud University	Government	Educational
2003G	2006G	Member of the Board of Directors	The Saudi Association for Chartered Accountants	Professional Organization	Financial Services
2002G	2006G	Board Member	General Management Institute	Government	Educational
1997G	2001G	Board Member	Girls University Studies Center	Government	Educational

5 - 2 - 8 Yousef A. Al Maimani, Director

Mr. Al Maimani is currently an independent non-executive Director and a member of the Compensation, Nomination and Governance Committee and the Risk Committee. Mr. Al Maimani was appointed to the Board on 1 May 2012G. Mr. Al Maimani is a Saudi national and, as at the date of this Prospectus, is 59 years old.

Details of Mr. Al Maimani's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1979G	BSc Degree	Science Management	University of San Francisco, USA

Mr. Al Maimani received his bachelor's degree in Science Management from the University of San Francisco in 1979G.

Outside NCB, Mr. Al Maimani is the chairman of the Maimani Holding Group, Maimani Red Brick & Clay Products Factories, Azel Rock Wool Insulation Factory, Yamco Co. and Yousef Maimani & Brothers Co, and a member of the board of Saudi Airlines Catering and CEO at Dom Contracting & Trading Co.

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2011G	Member of the Board	Saudi Airlines Catering Co.	Public Joint Stock Company	Supply Services
2010G	Chairman	Yousef Maimani & Brothers Co	Limited Liability Company	Trading and Contracting
1995G	Chairman	Dom Contracting & Trading Co.	Limited Liability Company	Trading and Contracting
1995G	Chairman	Azel Rock Wool Insulation Factory	Limited Liability Company	Industrial Investment
1980G	Chairman	Maimani Red Brick & Clay Products Factories	Limited Liability Company	Industrial Investment
1979G	Chairman	Maimani Holding Group	Limited Liability Company	Industry and Investment
1979G	Chairman	Yamco Co	Limited Liability Company	Trading and Contracting

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1986G	1994G	Chairman	Medina Chamber of Commerce	Civil Society Organisation	Civil
1995G	1999G	Board Member	Saudi Arabian Airlines	Closed Joint Stock Company	Transport
1998G	2002G	Chairman	National Company for Aviation Services (NAS)	Limited Liability Company	Transport

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1997G	2002G	Board Member	Saudi White Cement Co.	Closed Joint Stock Company	Cement
1998G	2004G	Board Member	Belgian-Luxembourg Chamber of Commerce	Civil Society Organisation	Civil

5 – 2 – 9 Ibrahim M. Al Romaih, Board Member

Mr. Al Romaih is currently a non-executive Director and a member of the Executive Committee and the Compensation, Nomination and Governance Committee. Mr. Al Romaih was appointed to the Board on 15 November 2009G. Mr. Al Romaih is a Saudi national and, as at the date of this Prospectus, is 59 years old.

Details of Mr. Al Romaih's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1990G	Certification	Credit Analysis	Chase Manhattan Bank, USA
1985G	Master's Degree	Economics	Central Michigan University, USA
1983G	BSc Degree	Economics	Portland State University, USA

Mr. Al Romaih holds a bachelor's degree in Economics which he received from Portland State University in 1983G. In 1985G, Mr. Al Romaih received a master's degree in Economics from Central Michigan University and a certification in credit analysis from Chase Manhattan Bank received in 1990G.

Mr. Al Romaih's early professional experience includes working as the assistant secretary general at PIF from 1985G to 2004G and as the vice chairman of the CMA from 2004G to 2009G. He was also a member of the SAVOLA Group board of directors from 1998G to 2001G.

Outside NCB, Mr. Al Romaih holds the position of CEO at the Saudi Arabia Investment Company (Sanabel). He is also a member of the board of directors at ACWA Power International Company.

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2013G	Member	ACWA Power International Company	Closed Joint Stock Company	Energy & Water
2009G	CEO	The Saudi Arabian Investment Company (Sanabel)	Closed Joint Stock Company	Investments

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2004G	2009G	Vice Chairman	Capital Market Authority (CMA)	Government Organization	Government

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1998G	2001G	Member	SAVOLA Group	Public Joint Stock Company	Agriculture & Food Industries
1985G	2004G	Assistant Secretary General	Public Investments Fund (PIF)	Government	Financial Services

5 - 2 - 10 Eyad I. Madini, General Secretary of the Board

Mr. Madini is currently the General Secretary of the Board and was appointed to this position on 2011G. Mr. Madini is also the Secretary of the Executive Committee and the Audit Committee. Mr. Madini is a Saudi national and, as at the date of this Prospectus, is 40 years old.

Details of Mr. Madini's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1998G	BSc	Law	King Abdulaziz University, Riyadh, Saudi Arabia
2008G	Master's Degree	Project Management	George Washington University, USA

Mr. Madini earned a law degree from King Abdulaziz University in 1998G and a master's degree in project management from George Washington University (USA) in 2008G. He also obtained an executive degree in management from the Institute of International Research in 2008G.

Mr. Madini started his career as a trainee lawyer in the Law Offices of Dr. Abdullah Abdel Mosleh for Legal and *Shari'ah* consultations and obtained a license to practice law from 1998G to 2000G. Mr. Madini subsequently joined NCB on 2000G to date and held several directorships over a period of 14 years, the latest of which is Board Secretary.

Professional Experience

Start Date	Position	Name	Type of Legal Entity	Sector
2000G	Board Secretary	NCB	Closed Joint Stock Company	Banks and Financial Services

Other Positions

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1998G	2000G	Trainee Lawyer	Law Offices of Dr Abdullah Abdel Mosleh for Legal and Shari'ah consultations	Professional Firms	Services

5 – 3 Service Contracts

5 – 3 – 1 Employment contracts for Directors and Senior Management

NCB has not entered into employment or service contracts with any individual member of the Board, with the exception of Mr. Saeed Al Ghamdi in his capacity as Chief Executive Officer. NCB has entered into an employment contract with Ms. Lama Ghazzaoui, the Head of the Finance Group.

The employment contracts for members of the Senior Management follow a substantially similar form (the "**Standard Contract**") the key terms of which are summarized below:

- The Standard Contract is valid and binding on both parties for a term defined in the relevant contract, starting from the joining date. If the senior manager is a non-Saudi national, the Standard Contract shall have a fixed term. If the senior manager is a Saudi national, the Standard Contract shall have a fixed term for the first three (3) years of employment and, thereafter, shall convert into an unlimited term contract. A fixed term employment contract expires at the end of its term, unless renewed in writing for an additional term. An unlimited term employment contract may be terminated by either party based on reasonable justification and upon giving written notice to the other party. The notice period in the Standard Contract is three (3) months.
- The Standard Contract is invalidated if the relevant government authority does not approve the employment or issues instructions to terminate the relevant employment.
- The Standard Contract states that the employee is paid a fixed salary and a fixed annual bonus equivalent to a multiple of the monthly basic salary. Other benefits and entitlements vary, and may include, housing allowances, transportation allowances, healthcare coverage, life and disability insurance and annual vacation leave.
- The Standard Contract of the employee imposes full confidentiality obligations at all times on the employee with regards to business secrets or confidential information related to NCB, its associated companies or its customers. The confidentiality covenants and undertakings survive termination.
- The Standard Contract prohibits the employee from performing any other paid or unpaid work for another employer during the term of employment.
- The Standard Contract imposes disclosure obligations on the employee with regards to personal commercial activities at the time of signing the contract. The employee is required to update such personal commercial activities information to avoid conflicts of interest.

5 – 3 – 2 Chief Executive Officer

Mr. Saeed Al Ghamdi is the Chief Executive Officer of NCB pursuant to an employment contract dated 4 March 2013G. The initial term of the contract is one year to be automatically renewed. The Standard Contract terms described in section 5-3-1 above are reflected in his employment contract. Mr. Al Ghamdi's remuneration consists of a fixed monthly salary and a fixed annual bonus equivalent to multiples of the monthly basic salary, in addition to an education allowance, representation allowance and a transportation allowance. Mr. Al Ghamdi also holds shares in NCB by virtue of his membership of the Board.

5 – 3 – 3 Head of the Finance Group

Ms. Lama Ghazzaoui is the Head of the Finance Group of NCB pursuant to an employment contract dated 27 July 2003G. The initial term of the contract is one year to be automatically renewed. The Standard Contract terms described section 5-3-1 above are reflected in Ms. Ghazzaoui's employment contract (including her remuneration).

5 – 4 Board Committees

The Board has established a number of committees, as required, to enable it to ensure the best performance of NCB's management. In this respect, the Board has ensured the following:

- All committees have approved functional rules that identify their roles and responsibilities.
- Each committee's powers are clearly specified.

- Minutes are prepared for all meetings and they are reviewed and approved by all Directors.

NCB currently has the following four Board-appointed committees:

5 - 4 - 1 Executive Committee

The Executive Committee (EXCO) consists of the Chairman of the Board (Chairman of the Committee), three Board members and the CEO (SAMA requires the CEO to be on EXCO). The EXCO meets once a month, and may be summoned at any time if the need arises; the meeting can be cancelled if no immediate decision is required from the EXCO.

The following table sets out the names of the members of the Executive Committee as at the date of this Prospectus.

Table 5-3 Members of the Executive Committee as at the date of this Prospectus

Name	Title
Mansour S. Al Maiman	Chairman
Saeed M. AlGhamdi	Member
Mutlaq A. Al-Mutlaq	Member
Abdulaziz A. Al-Zaid	Member
Ibrahim M. Al Romaih	Member

The Secretary of the Executive Committee is Eyad Madini.

For further information in relation to the biographical details of each member of the committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

The duties and responsibilities of the Executive Committee include the following:

- The primary purpose is to have oversight and management responsibility of NCB's business operations and make prompt decisions on pressing issues in relation to NCB's businesses.
- ensure NCB is represented sufficiently in its subsidiaries; and
- take credit and remedial decisions.

5 - 4 - 2 Risk Committee

The Risk Committee is composed of at least three Board members as well as the CEO. The Head of Risk Group cannot be a member of the Risk Committee but may be invited to attend its meetings. The Risk Committee meets at least four times a year.

The following table sets out the names of the members of the Risk Committee as at the date of this Prospectus:

Table 5-4 Members of the Risk Committee as at the date of this Prospectus

Name	Title
Mansour S. Al Maiman	Chairman
Saeed M. AlGhamdi	Member
Abdulrahman M. Al Mofadhi	Member
Dr. Khalid A. Al Arfaj	Member
Yousef A. Al Maimani	Member

The Secretary of the Risk Committee is Mohammed Jalal.

For further information in relation to the biographical details of each member of the committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

The duties and responsibilities of the Risk Committee are primarily to oversee risk management within NCB.

5 – 4 – 3 Compensation, Nomination and Governance Committee

The Compensation, Nomination and Governance Committee (CNGCO) consists of at least three Board members, two of whom are independent non-executive members of the Board. In addition, the CEO may be invited to the CNGCO, but shall not have any voting rights. The CNGCO meets at least twice per year. The CNGCO meets before Board meetings to review and recommend the annual compensation pool and its breakdown, in line with SAMA requirements.

The following table sets out the names of the members of the Compensation, Nomination and Governance Committee as at the date of this Prospectus:

Table 5-5 Members of the Compensation, Nomination and Governance Committee as at the date of this Prospectus

Name	Title
Mutlaq A. Al-Mutlaq	Chairman
Abdulrahman M. Al Mofadhi	Member
Yousef A. Al Maimani	Member
Ibrahim M. Al Romaih	Member
Dr. Khalid A. Al Arfaj	Member

The Secretary of the Compensation, Nomination and Governance Committee is Bleihid N. Al Otaibi.

For further information in relation to the biographical details of each member of the committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

The duties and responsibilities of the Compensation, Nomination and Governance Committee include the following:

- Support and advise the Board on matters concerning compensation, nomination, corporate governance and human resources;
- Support the Board members in fulfilling their responsibilities to Shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance;
- Make recommendations to the Board that promote appropriate remuneration policies and practices for NCB and oversee that these remuneration policies and practices are in the interest of the Shareholders and do not induce participation in taking high risk transactions to achieve short-term profits.
- Support the Board to set an appropriate succession policy for replacement, in case of vacancies, of its members to ensure continuity and graduation in the process of replacement.
- Coordinate with Human Resources to develop a succession and replacement policy and ensure the compliance of the executive management with such policy.
- To take a leadership role in shaping corporate governance policies and practices, including recommending to the Board the Corporate Governance Guidelines applicable to NCB and monitoring NCB compliance with said policies and guidelines.

5 - 4 - 4 Audit Committee

The Members of the Audit Committee are appointed by the Board. The Committee is comprised of at least five independent members, all of whom are non-executive. It includes more members from outside the Board, than from within the Board. The Audit Committee meets at least four times per year.

The following table sets out the names of the members of the Audit Committee as at the date of this Prospectus:

Table 5-6 Members of the Audit Committee as at the date of this Prospectus

Name	Title
Prof. Dr. Saad S Alrwaita	Chairman
Dr. Khalid A. Al Arfaj	Member
Dr. Saleh H. Alshinifi	Member
Khalid M. Al Solai	Member
Hani S. Al Shadoukhi	Member

The Secretary of the Audit Committee is Eyad Madini.

For further information in relation to the biographical details of Prof. Dr. Saad S Alrwaita and Dr. Khalid A. Al Arfaj please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

The experience, qualifications and the current and other positions of each of Dr. Saleh H. Alshinifi, Khalid M. Al Solai and Hani S. Al Shadoukhi are set out below:

5 - 4 - 4 - 1 Dr. Saleh H. Alshinifi

Dr. Alshinifi is currently a member of the Audit Committee and was appointed to this position on 2009G. Dr. Alshinifi is a Saudi national and, as at the date of this Prospectus, is 47 years old.

Details of Dr. Alshinifi's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
2002G	PhD	Financial Accounting and Auditing	Florida Atlantic University, USA
1995G	Masters	Accounting	Saint Louis University, USA
1990G	Bachelors	Accounting	King Saud University, Riyadh, Saudi Arabia

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2014G	Advisor	The Crown Prince Court	Royal Court	Government
2013G	Audit Committee Member	Solidarity Insurance Company	Public Joint Stock Company	Insurance

Start Date	Position	Name	Type of Legal Entity	Sector
2012G	Director	SOCPA	Professional Organisation	Financial Services
2012G	Director	Saudi Internal Audit Association	Professional Organisation	Financial Services
2010G	Director / Chairman's Advisor	SAAFAH, Integrity And Transparency Institute	Civil Society Organisation	Civil Society
2003G	Professor of Accounting and Auditing	King Saud University	National Non-profit University	Education
2003G	Director	Saudi Accounting Association	Professional Organisation	Financial Services

Professional Experience					
Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2010G	2012G	Chairman of the Department of Accounting	King Saud University	Non-Profit	Academia
2008G	2012G	Secretary General	Saafah Foundation	Civil Society Organisation	Civil Society
2008G	2011G	Audit Committee Member	Tawaniya Insurance Company	Public Joint Stock Company	Insurance
2008G	2010G	Chairman of Audit Committee	AlMuttahed Development and Real Estate Investment Company	Closed Joint Stock Company	Real Estate Development
2007G	2009G	Chairman for Saudi Equity Fund	Rana Investment Company	Closed Joint Stock Company	Financial Services
2007G	2009G	Board Chairman for Emerging Markets Equity Fund	RANA Investment Company	Closed Joint Stock Company	Financial Services
2004G	2014G	Internal Audit Advisor	STC	Public Joint Stock Company	Telecommunications
2004G	2010G	Board Chairman	Saudi Accounting Association	Professional Organization	Financial Services
2001G	2002G	Accounting Department Faculty	Florida Atlantic University	Private Non-Profit	Education
1992G	2002G	Assistant Professor	King Saud University	National Non-Profit University	Education
1990G	1991G	Assistant Auditor	Al-Rashid CPA Firm	Specialised Professional Services	Financial Services

5 - 4 - 4 - 2 Khalid M. Al Solai

Mr. Al Solai is currently a member of the Audit Committee and was appointed to this position on 2011G. Mr. Al Solai is a Saudi national and, as at the date of this Prospectus, is 52 years old.

Details of Mr. Al Solai's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1983G	Bachelors	Accounting	King Saud University, Riyadh, Saudi Arabia

Professional Experience

Start Date	Position	Name	Type of Legal Entity	Sector
2006G	Chief Audit Officer	Saudi Telecom Company	Public Joint Stock Company	Telecommunications

Other Positions

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1983G	2005G	Head of Audit and Analysis	Saudi Industrial Development Fund	Semi-Governmental Financial Organisation	Financial Services

5 - 4 - 4 - 3 Hani S. Al Shadoukhi

Mr. Al Shadoukhi is currently a member of the Audit Committee and was appointed to this position on 2014G. Mr. Al Shadoukhi is a Saudi national and, as at the date of this Prospectus, is 56 years old.

Details of Mr. Al Shadoukhi's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1989G	Bachelors	Operation and Finance Management	King Fahd University of Petroleum and Minerals, Dharan, Saudi Arabia

Other Positions

Start Date	Position	Name	Type of Legal Entity	Sector
2013G	CEO, Founder and Owner	Dar Almayda Financial Advisors	Professional Organisation	Financial Services

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2010G	2013G	General Manager, Chairman of Credit and Risk	Nayifat Instalment Company	Closed Joint Stock Company	Financial Services
2005G	2008G	Chairman of Credit Risk	Bank Al Balad	Public Joint Stock Company	Financial Services
2004G	2005G	AGM, Senior Executive Credit Officer, Commercial Credit	Arab National Bank	Public Joint Stock Company	Financial Services
1989G	2003G	Senior Manager, Corporate Credit Services Group	Riyadh Bank	Public Joint Stock Company	Financial Services

The duties and responsibilities of the Audit Committee are primarily to assist the Board in monitoring:

- The integrity of the financial statements and transactions of NCB and the systems and internal controls for financial reporting.
- The compliance by NCB with legal and regulatory requirements.
- The qualification, independence and performance of NCB's external auditors and the lead audit partner of NCB's external auditor.

5 – 5 Senior Management

The Senior Management is comprised of qualified and experienced senior officers with the necessary knowledge and expertise to run NCB's business. NCB is successful in retaining its Senior Management team and in developing qualified employees and promoting them to senior positions in NCB.

The following table sets out the names of the Senior Management as at the date of this Prospectus:

Table 5-7 Senior Management as at the date of this Prospectus

Name	Title	Age	Date of Appointment	Nationality	Shareholding in NCB	
					Pre Offering	Post Offering
Saeed M. AlGhamdi	Chief Executive Officer	51	29 January 2013G	Saudi	0.0001	0.0001
Faisal AlSakkaf	Head of the Strategy & Business Development Group	54	22 August 2013G	Saudi	Nil	Nil
Khalid Abdulmalik Al Sharif	Head of the CBG	50	16 March 2010G	Saudi	Nil	Nil
Bleihid Nasser Al Otaibi	Head of the Human Resources Group	57	5 March 2013G	Saudi	Nil	Nil
Abdulrazzak Mohammed El Khraijy	Head of the Shari'ah Group	59	22 August 2013G	Saudi	Nil	Nil
Talal Al Khereiji	Head of the Treasury Group	43	22 August 2013G	Saudi	Nil	Nil

Name	Title	Age	Date of Appointment	Nationality	Shareholding in NCB	
					Pre Offering	Post Offering
Hamed Fayez	Head of the RBG, Executive Vice President	37	22 August 2013G	Saudi	Nil	Nil
Edward Wess	Head of the Risk Group (and Group Chief Risk Officer)	60	20 March 2014G	British	Nil	Nil
Lama A. Ghazzaoui	Head of the Finance Group (and Group Chief Financial Officer)	39	22 August 2013G	Saudi	Nil	Nil
Peter Yarrington	Head of the Shared Services Group	56	16 February 2013G	Australian	Nil	Nil
Waleed Abdul Shakoor	Head of the Legal Division	47	2 May 2009G	Saudi	Nil	Nil
Abdullah A. Al Farraj	Head of Internal Audit Division	49	3 March 2013G	Saudi	Nil	Nil
Fuad Abdullah AlHarbi	Head of the Compliance Division	44	31 July 2013G	Saudi	Nil	Nil

As at the date of this Prospectus, there are no potential or actual conflicts of interest between the private interests and other duties of Senior Management listed above and their duties to NCB.

The experience and qualifications of each of the members of Senior Management is set out below:

5 - 5 - 1 Saeed M. AlGhamdi

Please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*".

5 - 5 - 2 Faisal Omar Al-Sakkaf

Mr Al-Sakkaf is the Chairman of the Strategy & Business Development Group at NCB, as well as a member of the Senior Management Committee and the Assets and Liabilities Committee. He is a Saudi citizen and is 54 years of age as of the date of this Prospectus. Mr Al-Sakkaf's educational credentials and professional experience are as follows:

Academic and Professional Qualifications

Year	Qualification	Area	University
1982G	Bachelor's Degree	Economics	Harvard University, USA
1988G	Master's Degree	Business Administration	Harvard Business School, USA

Professional Experience:

Start Date	End Date	Job Title	Name	Entity Type	Sector
1983G	1985G	Assistant Manager, Corporate Banking Group	The Saudi American Bank	Public Joint Stock Company	Financial Services
1990G	1993G	Head of Administration, Corporate Banking Group	Saudi Hollandi Bank	Public Joint Stock Company	Financial Services
1992G	2000G	Unspecified	Investments and Freelance	Different Entities	Freelance
1996G	2000G	Head of Administration, Corporate Banking Group	Samba Financial Group	Public Joint Stock Company	Financial Services
2003G	2003G	Head of Strategy, and Performance Management	National Commercial Bank	Closed Joint Stock Company	Financial Services
2006G	2013G	Chief Financial Officer	National Commercial Bank	Closed Joint Stock Company	Financial Services
2013G	Currently	Head of Strategy & Business Development Group	National Commercial Bank	Closed Joint Stock Company	Financial Services

Mr Al-Sakkaf received his Bachelor's degree in Economics in 1982G from Harvard University. After working for three years at the CBG at the Saudi American Bank, he continued his studies at Harvard Business School, receiving his Master's degree in 1988G. Immediately upon completing his higher education, Mr Al-Sakkaf joined the Saudi Hollandi Bank, where he worked as Head of Administration at the CBG. In 1996G he returned once again to the Saudi American Bank to head the Corporate Banking Services Group until 2000G, when he was appointed Financial Controller at Saudi Business Machines, the Kingdom's IBM agent.

Mr Al-Sakkaf joined the National Commercial Bank in 2003G, where he was Head of Strategy and Performance Management and headed a number of departments, including Corporate Strategy, budgets, administrative reports, and strategic initiatives, in addition to managing NCB's relationships with external administrative affairs consultants. In 2006G, he was appointed Financial Head of the Group. During his seven years with NCB he has led important projects, such as implementation of the Basel II Accord, and worked as a consultant in financial policies to maintain NCB's long-term liquidity and capital adequacy. In addition, Mr Al-Sakkaf was responsible for facilitating and setting company strategy, coordinating planning activities, regulating the organization, and supervising the implementation of performance management systems.

Mr Al-Sakkaf is also a member of the Board of Directors of Al Ahli Takaful.

5 - 5 - 3 Khalid Abdulmalik Al Sharif

Mr. Al Sharif is the Head of the CBG and a member of the HMC, the ALCO, the ORC and the CRMC. Mr. Al Sharif oversees and leads major divisions in NCB under the CBG, including Institutional Banking, Corporate Banking, SME Banking, Specialised Finance, Financial Institutions, Transactions Banking, Corporate Business Support Services, Financial Restructuring and Special Accounts. Mr. Al Sharif is a Saudi national and, as at the date of this Prospectus, is 50 years old.

Details of Mr. Al Sharif's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1985G	Masters	Business Administration	University of Notre Dame, USA
1984G	B.Sc.	Business Administration	University of Notre Dame, USA

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1986G	2000G	Executive Vice President, Head of Branch Network	Riyad Bank	Public Joint Stock Company	Financial Services
2000G	2004G	Head of Retail Distribution	NCB	Closed Joint Stock Company	Financial Services
2004G	2005G	Head of the Customer Management Group	NCB	Closed Joint Stock Company	Financial Services
2005G	2007G	Head of the Private Banking Division	NCB	Closed Joint Stock Company	Financial Services
2007G	2010G	Head of the Individual Banking Sector	NCB	Closed Joint Stock Company	Financial Services

Mr. Al Sharif has 28 years of extensive banking experience ranging across investment and commercial banking in the Saudi banking industry.

Having completed his MBA degree from the College of Notre Dame in 1985G, Mr. Al Sharif commenced his career in the Investment Services department of Riyad Bank in 1986G, and progressed to become the Executive Vice President.

Mr. Al Sharif joined NCB in 2000G, and prior to his current position, he took on a number of prominent roles and managerial responsibilities at NCB, including: Head of Branch Network, Head of Retail Distribution, Head of the Customer Management Group, Head of Private Banking, and Head of Individual Banking. He is also currently the Chairman of TFKB's Credit Committee and a member of the Board of Directors of TFKB. Mr. Al Sharif has also attained a Senior Credit Officer (SCO) Level 1 Certificate.

5 - 5 - 4 Bleihid Nasser Al Otaibi

Mr. Al Otaibi is the Head of the Human Resources Group of NCB and is a member of the HMC. Mr. Al Otaibi is a Saudi national and, as at the date of this Prospectus, is 57 years old.

Details of Mr. Al Otaibi's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1983G	Bachelor's Degree	Business Administration	Heritage College, USA
1978G	Course	Advanced Administration	Harvard University and University of Chicago, USA
2002G	Course	Executive Management for Senior HSBC Executives	HSBC Academy, Hong Kong
2003G	Course	Strategic Planning and Implementation	IMD Business School, Lausanne, Switzerland

Professional Experience

Start Date	End Date	Job Title	Name	Entity Type	Sector
2013G	-	Head of Human Resources	National Commercial Bank	Closed Joint Stock Company	Financial Services
2007G	2013G	Founder and Managing Director	Consulting firm for human resources and organizational development (Proficiency Consulting)	Individual Enterprise	Investments
2006G	2007G	Director of Human Resources	Saudi Research and Marketing Group	Public Joint Stock Company	Services
1997G	2006G	General Director of Human Resources	The Saudi British Bank	Public Joint Stock Company	Financial Services
1985G	1997G	Executive Assistant to the President for Administrative Affairs, Director of the Hiring Department and Member of the Administrative Advisory Committee (highest strategy committee)	King Faisal Specialist Hospital	Public Institution	Medical Services
1983G	1985G	Director of Administration	National Information Center	Governmental	Information Technology

Other Positions

Start Date	Job Title	Name	Entity Type	Sector
June 2013G	Chairman of the Board of Directors	Al Ahli Takaful	Public Joint Stock Company	Insurance

Mr Al-Otaibi has worked in the field of Human Resources and Organizational Development for the last seventeen years. He was General Director of Human Resources at the Saudi British Bank, Director of Human Resources at the Saudi Research and Marketing Group, Managing Director at a consulting firm for human resources and organizational development, and has also been Chairman of the Board of Directors at Al Ahli Takaful since 2013G.

5 - 5 - 5 Abdulrazzak Elkhraijy

Mr Elkhraijy is the Head of the *Shari'ah* Group at NCB. He is a Saudi citizen. As of the date of this Prospectus, Mr Elkhraijy is 59 years old.

The following are Mr Elkhraijy's educational credentials and professional experience:

Academic and Professional Qualifications

Year	Qualification	Area	University
1980G	Bachelor's Degree	Economics and Business	Macalester College, Saint Paul Minnesota, USA

Professional Experience

Start Date	End Date	Job Title	Name	Entity Type	Sector
2006G	2014G	Head of Islamic Banking Business Development	National Commercial Bank	Closed Joint Stock Company	Financial Services
2004G	2006G	Head of the Islamic Business Development Group	National Commercial Bank	Closed Joint Stock Company	Financial Services
1998G	2006G	Director of the Islamic Banking Department	National Commercial Bank	Closed Joint Stock Company	Financial Services
1994G	1998G	Deputy Director of the Islamic Banking Department	National Commercial Bank	Closed Joint Stock Company	Financial Services
1992G	1994G	Acting Regional Director, Western Region	National Commercial Bank	Closed Joint Stock Company	Financial Services
1990G	1992G	Deputy Regional Director, Western Region	National Commercial Bank	Closed Joint Stock Company	Financial Services
1989G	1990G	Regional Director, Eastern Region	National Commercial Bank	Closed Joint Stock Company	Financial Services
1987G	1989G	Deputy Regional Director, Western Region	National Commercial Bank	Closed Joint Stock Company	Financial Services
1985G	1987G	Manager, Main Branch, Jeddah	National Commercial Bank	Closed Joint Stock Company	Financial Services
1983G	1985G	Deputy Manager, Main Branch, Jeddah	National Commercial Bank	Closed Joint Stock Company	Financial Services
1982G	1983G	Manager, Khalidiyah Branch	National Commercial Bank	Closed Joint Stock Company	Financial Services
1980G	1982G	Administrative Trainee	National Commercial Bank	Closed Joint Stock Company	Financial Services

Mr. Elkhraijy joined NCB in 1980G following his graduation from Macalester College, St Paul, Minnesota, USA , with a bachelor's degree in Economics and Business. He was appointed to his current role in 2014G.

Mr. Elkhraijy career at NCB began with his appointment as a branch manager, Khalidia Branch, in Jeddah in 1982G. In 1985G, he was promoted to manage NCB's main branch, one of the most important positions in NCB. He was also a member of various committees including the credit committee, the loans remedial committee, and the personnel committee.

Between 1987G and 1994G, Mr. Elkhraijy assumed the role of Regional Manager for the Western and Eastern regions. In 1994G, he became Deputy Head of the Islamic Banking Division, undertaking the responsibility for setting up the division's business strategy, leading new product and service developments besides determining the suitability of new investment opportunities for assets under management, as Head of the Islamic Credit Committee.

In 1998G he was promoted to Head of NCB's Islamic Banking Division, a post he held until 2004G. During his tenure in this position, he headed NCB's efforts to introduce the first capital-preserved funds and Islamic equity investment guidelines in addition to launching the first Islamic credit card. Moreover, he introduced a range of new innovative Islamic funds that helped propel NCB's portfolio to become the leader in Islamic funds, both in terms of diversity and size.

As a result of the merger between the Retail and the Islamic Banking Divisions, the Islamic Retail Banking Division was created and Mr. Elkhraijy headed this division from 2004G until 2006G. In December 2006G, he was appointed as Head of the Islamic Banking Development Group to oversee all aspects related to Islamic Banking within NCB and certain of NCB Group's subsidiaries.

5 - 5 - 6 Talal Ahmad Al Khereiji

Mr. Al Khereiji is the Head of the Treasury Group at NCB and is a member of the HMC, the ALCO and the ORC. Mr. Al Khereiji is a Saudi national and, as at the date of this Prospectus, is 43 years old. Details of Mr. Al Khereiji's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1995G	Masters	International Business	Edmund Walsh School of Foreign Service, Georgetown University, USA
1993G	Bachelors	International Economics	Georgetown University, USA

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1995G	2003G	Assistant Adviser, Investment Department	The Saudi Arabian Monetary Agency	Government	Financial Services
2003G	2006G	Senior Trader, NCB Trading Department	NCB	Closed Joint Stock Company	Financial Services
2006G	2009G	Head of Assets and Liabilities Management	NCB	Closed Joint Stock Company	Financial Services
2009G	2013G	Head of Department, Treasury Group	NCB	Closed Joint Stock Company	Financial Services
2013G	Present	Head of Treasury Group	NCB	Closed Joint Stock Company	Financial Services

Mr. Al Khereiji is a graduate of Georgetown University where he received his Master's degree in 1995G from the Edmund Walsh School of Foreign Service. He spent seven years working in the Investment Department at SAMA where he was a member of the "Advisory Group" which designed and implemented SAMA's investment policy under which the Kingdom's foreign exchange reserves were managed. The role also include tactical asset allocation, investment research, proprietary fund management and fund manager selection/supervision.

Mr. Al Khereiji joined NCB in 2003G and his roles have included heading the Assets and Liabilities Management department of Treasury. He also served as NCB's ALCO Secretary until his appointment as Head of Treasury in July 2009G and has since chaired the Treasurers' Committee of Saudi Arabia for 2 consecutive years (this is an industry body in the Kingdom to discuss treasury, regulatory, liquidity and other financial services industry issues in the Kingdom).

5 - 5 - 7 Hamed Mohammed Fayez

Mr. Fayez is the Executive Vice President, Head of the RBG at NCB and is a member of the HMC, the ALCO, the ORC and the CRMC. Mr. Fayez is a Saudi national and, as at the date of this Prospectus, is 37 years old. Details of Mr. Fayez's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
2000G	Major in Mathematical Sciences and Economics with a minor in Business and Entrepreneurship	Mathematical Sciences and Economics / Business and Entrepreneurship	The Johns Hopkins University, Baltimore

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2000G	2002G	Analyst	Merrill Lynch previously (now affiliated with Bank of America)	Joint Stock Company	Financial Services
2002G	2003G	Senior Dealer/Capital Markets in Treasury	Banque Saudi Fransi	Public Joint Stock Company	Financial Services
2003G	2003G	Senior Portfolio Manager/Private Portfolio in Treasury	NCB	Closed Joint Stock Company	Financial Services
2004G	2006G	Vice President	Credit Suisse	Closed Joint Stock Company	Financial Services
2006G	2008G	Executive Director	Goldman Sachs International	Private Non-limited Company	Financial Services
2008G	2009G	Chief Executive Officer	Goldman Sachs Saudi Arabia	Closed Joint Stock Company	Financial Services
2009G	2012G	MD Head of Asset Management	NCB Capital	Closed Joint Stock Company	Financial Services
2012G	2013G	Head of Private Banking	NCB	Closed Joint Stock Company	Financial Services

Mr. Fayez is a graduate of John Hopkins University (Baltimore, USA) with a double major in Mathematical Sciences and Economics and a minor in Business and Entrepreneurship. He began his career with leading international and local institution Merrill Lynch and then moved to Credit Suisse. Thereafter, he spent three years with Goldman Sachs, becoming the CEO of Goldman Sachs Saudi Arabia.

Mr. Fayez began his association with NCB in 2009G when he joined the firm as the Head of Asset Management for NCB Capital. After 3 years at NCB Capital, Mr. Fayez was appointed as head of NCB's Private Banking Division before being appointed as Head of the RBG.

Mr. Fayez has diverse financial experience as the scope of his work varied from Asset Management & Wealth Management to Retail, Sales and Trading. In addition to his executive duties, Mr. Fayez has served on management committees and boards of a number of companies including TCP (UK/Dubai) and Saudi Media Systems (Riyadh). At present, he is currently the Chairman of NCB Capital's Investment Management Company in Dublin, Republic of Ireland and Chairman of Eastgate Capital in Dubai, UAE. Mr. Fayez is also a Director of NCB Capital.

5 - 5 - 8 Edward Lawrence Wess

Mr. Wess is the Group Chief Risk Officer and Head of the Risk Group of NCB. He is also a member of the HMC, the ALCO and the CRMC and is the chairman of the ORC. Mr. Wess is a British national and, as at the date of this Prospectus, is 60 years old.

Details of Mr. Wess' academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1975G	Bachelors	German and History	Bowling Green State University, USA
1976G	Masters	International Management	American Graduate School of International Management (Thunderbird), USA
1976G	Masters	MBA, Finance	Southern Methodist University, USA

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1977G	1981G	Credit Manager / Senior Account Officer, Asset Based Finance	Citicorp (New York, USA)	Public Company	Financial Services
1981G	1984G	Resident Vice President, Risk Asset Review	Citigroup (Greece – Middle East, Africa)	Public Company	Financial Services
1984G	1988G	Vice President	Citigroup (Mexico)	Public Company	Financial Services
1988G	1991G	Country Risk Manager	Citigroup (New Zealand)	Public Company	Financial Services
1991G	1993G	General Manager	Senior Risk Manager (Australia)	Public Company	Financial Services
1993G	1995G	General Manager and Board President	Banco de Honduras (Honduras, Citigroup)	Public Company	Financial Services
1995G	1998G	Senior Risk Manager, Indian Subcontinent	Citigroup (India)	Public Company	Financial Services
1998G	2000G	Director, Audit and Risk Review - Asia and Japan	Citigroup (Singapore)	Public Company	Financial Services
2000G	2006G	Chief Auditor Europe and EMEA	Citigroup (UK)	Public Company	Financial Services
2006G	2008G	Chief Risk Officer	Bank Handlowy w Warszawie (Poland, Citigroup)	Public Company	Financial Services

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2008G	2009G	Managing Director / Senior Risk Manager, EMEA Commercial Banking	Citigroup (UK)	Public Company	Financial Services
2009G	2014G	Executive Vice President / Head of Corporate Risk Management	NCB	Closed Joint Stock Company	Financial Services

Mr. Wess holds Master's degrees in International Management and in Business Administration from the American Graduate School of International Management (Thunderbird) and from Southern Methodist University, respectively.

Mr. Wess spent more than 30 years with Citibank-Citigroup in 10 countries where he took on various responsibilities in regional, international and corporate assignments - from the US to the Middle East and Africa, Mexico, Central America, Australia, New Zealand, Indian Subcontinent, Singapore, United Kingdom and Poland. His experience encompasses positions as Chief Risk Officer and Country Risk Manager in three countries, Chief Auditor for Europe as well as Country Corporate Officer and Board President in Honduras. His experience includes risk management, internal audit, credit and corporate banking.

Mr. Wess began his association with NCB in 2009G as the Head of Risk Management for the Corporate and Private Bank.

5 – 5 – 9 Lama Ahmad Ghazzaoui

Ms. Lama Ghazzaoui is Head of the Finance Group (and the Chief Financial Officer) at NCB, and a member of the Senior Management Committee, the Assets and Liabilities Committee, the Procurement Committee, and the Credit and Remedial Committee. She is a Saudi national and, as at the date of this Prospectus, is 39 years of age.

Ms. Ghazzaoui's educational credentials and professional expertise are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1996G	Bachelor's Degree	Accounting	The Lebanese American University, Lebanon
2000G	Member	Public Accounting	American Institute of Certified Public Accountants, USA

Professional Experience:

Start Date	End Date	Job Title	Name	Entity Type	Sector
1997G	2000G	External Account Auditor	Deloitte & Touche	Limited Liability Company	Auditing Services/ Financial Services
2001G	2003G	Internal Auditor and Accounting Teacher	Effat University, Jeddah	Non-profit Private Institution	Education
2003G	2005G	Chief Financial Analyst	National Commercial Bank	Closed Joint Stock Company	Financial Services

Start Date	End Date	Job Title	Name	Entity Type	Sector
2005G	2010G	Treasury Controller	National Commercial Bank	Closed Joint Stock Company	Financial Services
2010G	2013G	Chief Accountant	National Commercial Bank	Closed Joint Stock Company	Financial Services
2013G	Currently	Head of the Finance Group (and the Chief Financial Officer)	National Commercial Bank	Closed Joint Stock Company	Financial Services

Ms. Ghazzaoui holds a Bachelor's degree in Accounting from the Lebanese American University (1996G) and in 2000G obtained her CPA accreditation and membership to the AICPA (American Institute of Certified Public Accountants) in the State of Colorado, USA. She started her career as an external auditor in Deloitte & Touche in 1997G.

Ms. Ghazzaoui began her association with The National Commercial Bank in 2003G as Senior Financial Analyst and then as Financial Controller in charge of general finance, budgeting, reporting and control for the Treasury Division. In December 2010G, Ms. Ghazzaoui was appointed as NCB's Chief Accountant taking on responsibility in the areas of the Group's Financial and Regulatory Reporting, Central Accounting, Accounting Control and Accounting Policies.

In her current senior role, Ms. Ghazzaoui is responsible for maintaining and ensuring the accuracy and integrity of the financial accounts besides managing NCB's relationships with credit agencies. She supports the CEO in executing strategic initiatives and oversees the implementation of NCB's performance management systems.

5 - 5 - 10 Peter Ralph Yarrington

Mr. Yarrington is the Head of the Shared Services Group of NCB. He is also a member of the HMC and the ORC and is the chairman of the Purchasing Committee. Mr. Yarrington is an Australian national and, as at the date of this Prospectus, is 56 years old.

Details of Mr. Yarrington's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1989G	BComm	Commerce (Marketing)	University of New South Wales, Australia

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2011G	2013G	Chief Information Officer	National Commercial Bank	Closed Joint Stock Company	Financial Services
2009G	2011G	Chief Information Officer	Bank of New Zealand	Subsidiary of National Australia Bank – publicly listed company	Financial Services
2006G	2006G	General Manager, IT	National Australia Bank	Publicly listed company	Financial Services

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1998G	2006G	Chief Information Officer	JBWere / Goldman Sachs Australia (merged 2004G)	Private company	Financial Services
1990G	1998G	Partner	CSC Index	Partnership	Consulting

Mr. Yarrington achieved his Bachelor's degree in Commerce from the University of New South Wales (Australia).

He was Chief Information Officer (CIO) at the Bank of New Zealand from 2009G to 2011G, General Manager, Technology at the National Australia Bank from 2007G to 2009G, and CIO, Equity Partner and Executive Committee member at Goldman Sachs Australia (joint venture with JBWere) from 1998G to 2006G.

Mr. Yarrington was a Partner at the CSC Index from 1990G to 1998G, a consulting group based in the US. In this role he undertook major business and IT change assignments in the US, UK, Asia and Australia.

He began his association with NCB in 2011G as NCB's Chief Information Officer responsible for a major program of technology improvement, aimed at uplifting the capability, capacity and resilience of NCB's technology.

5 - 5 - 11 Waleed Abdul Shakoor

Mr. Shakoor is Head of the Legal Division at NCB and is a member of the CC. Mr. Elkhraijy is a Saudi national and, as at the date of this Prospectus, is 47 years old.

Details of Mr. Abdul Shakoor's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1989G	Bachelors	Law	King Abdul Aziz University, Jeddah, Saudi Arabia
2013G	Certified Arbitrator	Commercial Arbitration	GCC Commercial Arbitration Center

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1990G	1998G	Legal Researcher	National Commercial Bank	Closed Joint Stock Company	Financial Services
1998G	2006G	Legal Advisor	National Commercial Bank	Closed Joint Stock Company	Financial Services
2006G	2009G	Head of Litigation	National Commercial Bank	Closed Joint Stock Company	Financial Services
2009G	June 2013G	Head of Legal Department	National Commercial Bank	Closed Joint Stock Company	Financial Services
2013G	April 2013G	Board Member	The Commercial Real Estate Markets Co. Ltd	Limited Liability Company	Real estate Company
2013G	June 2013G	Head of Legal Department	NCB	Closed Joint Stock Company	Financial Services

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2013G	June 2013G	General Manager	The Real Estate Development Company	Limited Liability Company	Real estate Company
2014G	January 2014G	Board Member	El Behar for Real Estate Investment	Limited Liability Company	Real Estate Investment

Mr. Abdul Shakoor holds a Bachelor's degree in Law from the King Abdulaziz University (1989G, Jeddah, Saudi Arabia), and in 2006G became a Certified Lawyer by the Kingdom's Ministry of Justice, and is currently a member of the Union of Arab Lawyers. Mr Abdul Shakoor has taken many specialized law courses within the Kingdom and abroad, and has taken part in international conferences for directors from the Legal departments of the largest global companies and banks. He has been granted the title of "Certified Arbitrator" by the GCC Commercial Arbitration Centre (May 2013G). Mr Abdul Shakoor has worked as a lawyer for more than 23 years and has accumulated considerable experience in various fields of law, including but not limited to litigation, contract law and general legal counselling.

Mr Abdul Shakoor joined NCB in 1990G as a legal researcher and was included in a number of important positions within the Bank, including legal counsel (in 1998G) and Case Manager (in 2006G). In 2009G, he was promoted to Head of the Legal Department and Head of the Group's legal advisers. In June 2013G, Mr Abdul Shakoor was promoted to his current position as Head of the Legal Department.

Mr Abdul Shakoor is a member of the Board of Directors of the Commercial Real Estate Markets Company Limited (since April 2013G) and in June 2013G was appointed General Director of the Real Estate Development Company, Limited, which was established by NCB to store and manage property deeds and real estate secured on behalf of NCB. He also served as a member of the Board of Directors of the Al Behar Real Estate Investment Company (in January 2014G).

5 - 5 - 12 Abdullah A. Al Farraj

Mr. Al Farraj is the Head of the Internal Audit Division at NCB. He is also a member of the Operation Risk Committee (ORC) and is the chairman of the Compliance Committee (CC). Mr. Al Farraj is a Saudi national and, as at the date of this Prospectus, is 49 years old.

Details of Mr. Al Farraj's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
1989G	Bachelor Degree	Accounting	Imam University, Qassim
1996G	Masters	Master of Science in Accounting	American University in Washington D.C., USA
1999G	Certified Public Accountant	Accounting	University of Illinois, USA
1999G	Certified Internal Auditor	Auditing	University of Illinois, USA
1999G	Insurance Foundation Certificate	Insurance	University of Illinois, USA
2000G	Certified Information Systems Auditor	Systems Audit	Chartered Insurance Institute, UK

Year	Qualification	Area	University
2002G	Certified in Control Self-Assessment	Internal Control	ISACA
2008G	Certified Public Accountant (Saudi Arabia)	Accounting	SOCPA

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
1998G	2005G	Manager	Tawuniya	Public Joint Stock Company	Insurance
2005G	2006G	Director of Finance	Sultan Bin Abdulaziz Humanitarian City	Public Welfare Organization	Health Care
2006G	2007G	VP- Finance and Administration	Malath Insurance and Re-Insurance Company	Public Joint Stock Company	Insurance
2008G	2010G	VP-Finance and Administration	Solidarity Saudi Takaful Company Riyadh, KSA	Public Joint Stock Company	Insurance
2011G	2013G	CFO	Saudi Re	Public Joint Stock Company	Insurance

Mr. Al Farraj holds a Master's Degree in Accounting from the American University (Washington, DC, USA). He is a Certified Public Accountant (CPA) from both Saudi Arabia and the USA and is a Certified Internal Auditor and Certified Information Systems Auditor.

He has over 24-years of experience in the financial and internal audit fields, having worked with a number of reputed financial institutions in the Kingdom.

5 - 5 - 13 Fuad Abdullah Al Harbi

Mr. Al Harbi is the Head of the Compliance Division of NCB. He is also a member of the CC and the ORC. Mr. Al Harbi is a Saudi national and, as at the date of this Prospectus, is 44 years old.

Details of Mr. Al Harbi's academic qualifications and professional experience are set out below:

Academic and Professional Qualifications

Year	Qualification	Area	University
2012G	Certified Compliance Officer	Compliance & AML	Institute Of Banking / SAMA
2012G	Certificate Course in Compliance & AML	Compliance & AML	Henley Business School, University of Reading
2007G	Certified Compliance Officer	Compliance & AML	American Academy of Financial Management
2006G	Fellow Rank	Internal Control	Arab Academy for Banking and Financial Sciences
1993G	Bachelors	Accounting	King Saud University, Riyadh, Saudi Arabia

Professional Experience

Start Date	End Date	Position	Name	Type of Legal Entity	Sector
2007G	2013G	Head Sectors Compliance	National Commercial Bank	Closed Joint Stock Company	Financial Services
2005G	2007G	Manager, SAMA Relation	National Commercial Bank	Closed Joint Stock Company	Financial Services
2004G	2005G	Senior Compliance Officer, Western Region	National Commercial Bank	Closed Joint Stock Company	Financial Services
2003G	2004G	Senior Manager, Compliance Division	National Commercial Bank	Closed Joint Stock Company	Financial Services
2002G	2003G	Regional Manager, Internal Accounting Control	National Commercial Bank	Closed Joint Stock Company	Financial Services
2001G	2002G	Manager, Accounting Policy and Procedures	National Commercial Bank	Closed Joint Stock Company	Financial Services
1997G	2001G	Senior Financial Analyst	National Commercial Bank	Closed Joint Stock Company	Financial Services
1993G	1997G	Accounting Department Head	Tiaba Investment & Real Estate Company	Public Joint Stock Company	Real Estate

Mr. Al Harbi holds a Bachelor's Degree in Accounting from the King Saud University (1993G, Riyadh, Saudi Arabia), and has been a Fellow Rank of The Arab Academy for Banking and Financial Sciences since 2006G. In 2007G, he completed the Certified Compliance Officer (CCO) course from The American Academy of Financial Management. In 2012G, Mr. Al-Harbi completed a Certificate Course in Compliance and Anti-Money Laundering from the Henley Business School, University of Reading. In the same year, he also completed the Certified Anti-Money Laundering and Terrorist Financing and the Certified Compliance Officer (CCO) from the Institute of Bankers in Riyadh.

He began his association with NCB in 1997G, with the last 10 years in various roles within Compliance. He was the Head of Sectors Compliance until his promotion to his current role.

5 – 6 Remuneration of Directors, Board Committee Members and Members of the Senior Management

No member of the Board or the Senior Management has any authority to vote on the remuneration paid to them. There is no authority granted to any member of the Board or the Senior Management which would allow him/her to borrow from NCB. Moreover, no member of the Board or the Senior Management has any authority to vote on a contract or a proposal in which they have a material interest.

As at the date of this Prospectus, over the past three years, NCB has paid approximately the following amounts in the financial years ended 31 December 2011G, 2012G and 2013G respectively on account of remunerations pursuant to the rules and guidelines issued by the applicable regulatory and supervisory bodies, including allowances and bonuses, and other benefits in respect of members of the Board (of whom only the CEO receives a salary), members of the Board Committees, and the five highest paid members of Senior Management.

Table 5-8 Remuneration of members of the Board, members of the Board Committees, and the five highest paid members of Senior Management in the financial years ended 31 December 2011G, 2012G and 2013G, respectively

Description	2011G (SAR '000)	2012G (SAR '000)	2013G (SAR '000)
Directors	9,000	12,500	12,100
Members of Board Committees	603	706	688
Five members of the Senior Management (including CEO and CFO)	41,779	38,849	47,882
Total	51,382	52,055	56,978

Source: NCB

5 – 7 Corporate Governance

NCB's governance framework has been developed to promote the appropriate functioning of the Board of Directors and its Board Committees and Management Committees and to ensure effective and efficient governance of the Group.

5 – 7 – 1 Board of Directors

5 – 7 – 1 – 1 Composition

The Board of Directors is comprised of nine members. Members are appointed for a term of three years, in accordance with the Bylaws and in line with SAMA's guiding principles for board composition. The membership of the Board includes no more than two executive members and no less than two independent Board members or one-third of the members, whichever is greater.

Board members may hold directorships in other companies subject to a maximum of five listed companies, other than banks, and provided that there is no conflict of interest in the membership in any of these companies including, particularly, with the membership of the Board.

The Board is responsible for choosing a non-executive Director as Chairman of the Board and for selecting a non-executive member as vice-chairman (after obtaining prior "non-objection" from SAMA). The Board is responsible for appointing a Secretary of the Board.

5 – 7 – 1 – 2 Purpose and authority

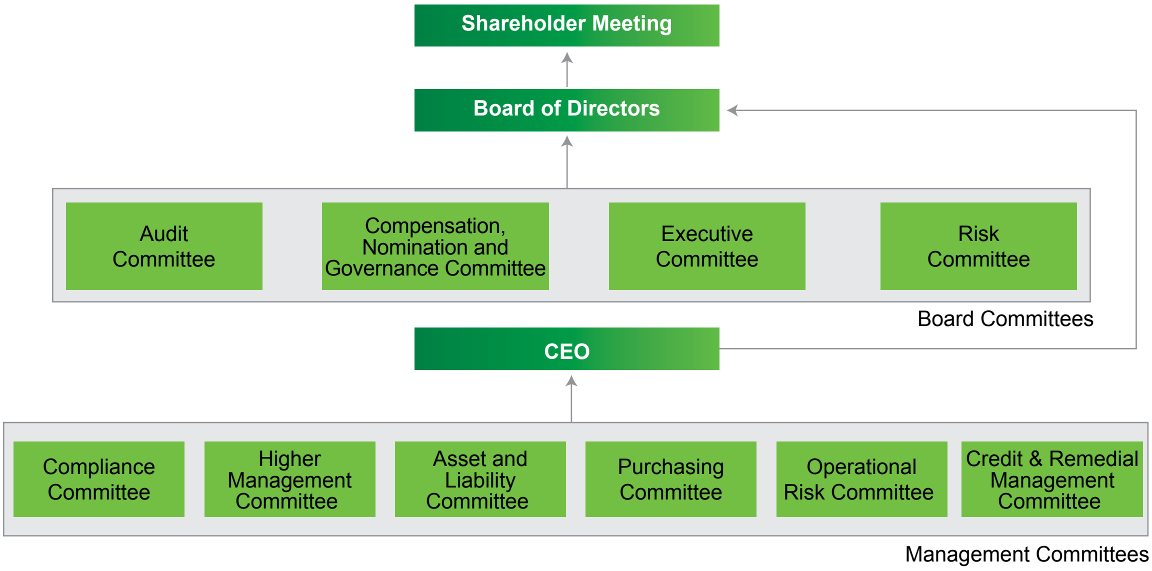
The Board is the main decision making forum of the Group. The members of the Board are under a duty to provide effective governance and supervise the Senior Management for the benefit of NCB's shareholders, and to balance the interest of its diverse constituencies, including its customers, employees, suppliers and local communities.

The Board, directly and through its committees and the Chairman of the Board, provides direction to the Group's management, generally through the CEO, to pursue the best interests of the Group.

The Board has the widest authority in managing the affairs of the Group. The Board can delegate some of its decision-making authority and responsibilities to the CEO, other executive members or to one or more of its committees. This does not relieve the Board of its full accountability for authorities and responsibilities delegated to any of them. The Board meets at least every quarter.

The following diagram sets out NCB's corporate governance structure:

Table 5-9 NCB's corporate governance structure



Source: NCB

5 - 7 - 1 - 3 Corporate Governance Regulations and Companies Regulations

Other than as set out in the following two paragraphs, NCB adheres to the Corporate Governance Regulations issued by SAMA and the CMA. NCB seeks to comply with governance standards through an ongoing review of its policies and procedures, and enact policies and procedures that will enhance the concepts of transparency and integrity. NCB applies all the obligatory provisions contained in the by-laws of corporate governance issued by the CMA on an ongoing basis.

NCB is in compliance with paragraph (b) of Article 10, whereas the company has put in place written rules and procedures regulating conflicts of interest, financial management, accounting, and risk management. Further, the Board of Directors reviews NCB's internal audit procedures. NCB is also in compliance with paragraph (c) of Article 10, whereas the Board of Directors has adopted a Corporate Governance Manual approved on 5/30/1435 H (corresponding to 31 March 2014G), and paragraph (d) of Article 10 since NCB's bylaws sets forth a mechanism for the membership of the Board of Directors, tenor of Directors and the procedure for their appointment. NCB also complies with paragraphs (c) and (e) of Article 12 since the majority of the Board of Directors are non-executive, and one third of the Directors are independent. Further, the Board of Directors has appointed an audit committee and a nomination and remuneration committee in accordance with the requirements of Articles 14 and 15, respectively.

NCB does not, however, meet the following mandatory requirements:

- NCB does not adhere to the requirements of paragraphs (i) and (j) of Article (5).
- NCB does not adhere to all of the requirements of Article (9).
- NCB does not adhere to paragraph (g) of Article (12).
- NCB has not adopted or approved the rules governing selection of members of the Audit Committee, the duration of membership on the committee, or the committee's operational framework as set forth in NCB's Corporate Governance Manual (adopted by the Board of Directors on 30/05/1435H (corresponding to 31 March 2014G) and by NCB's General Assembly in accordance with Article (14) of the Corporate Governance Regulations.
- NCB has not adopted or approved the rules governing selection of members of the Nomination and Remuneration Committee the duration of membership on the committee, or the committee's operational framework as set forth in NCB's Corporate Governance Manual as approved by the General Assembly of the Company in accordance with Article (15) of the Corporate Governance Regulations. In addition, the responsibilities of the Nomination and Remuneration Committee as set forth in NCB's Corporate Governance Guide do not explicitly include some of the responsibilities required under paragraph (c) of Article (15).

NCB is not in compliance with these requirements as at the date of this Prospectus since its Shares are not yet listed. NCB undertakes to abide by these requirements promptly after the CMA's approval of the registration of the Company's Shares with the CMA and their listing.

In addition, NCB has complied with the majority of the suggested requirements set out in the CMA's corporate governance rules as detailed in Form (8), which was completed and submitted to the CMA. The following is a summary of the material items that do not conform to the suggested requirements of the corporate governance rules:

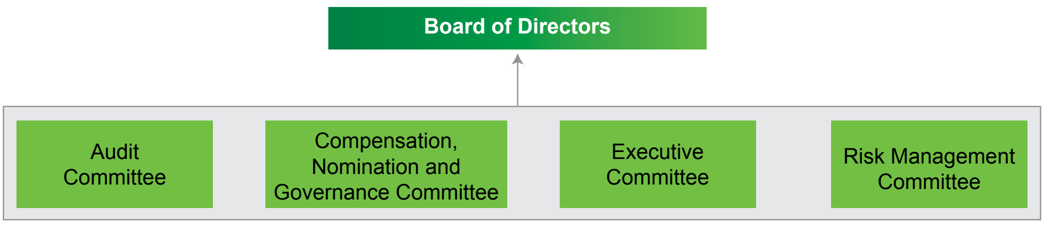
- Paragraph (b) of Article (6) requires the use of cumulative voting in connection with the election of Directors by the General Assembly. NCB follows a voting method that gives a single vote to each Share when electing Directors by the General Assembly.
- Article (8) requires NCB to put in place written policies and procedures relating to disclosure, and supervisory regulations in accordance with the corporate governance rules. NCB does not adhere to this requirement since its Shares are not yet listed.
- Paragraph (d) of Article (12) prohibits any single person from holding both the position of chairman of the board directors and any executive position such as the company's Managing Director, Chief Executive Officer or Director-General. Although NCB does not combine the position of Chairman of the Board with any executive position at NCB, Article (21) of the Bylaws allows the election of one member to be both Chairman and Managing Director.
- Paragraph (i) of Article (12) of the Corporate Governance Rules provides that a juristic person that is entitled to appoint representatives to the Board of Directors by the virtue of a company's bylaws should not be entitled to vote on the election of other members of the Board of Directors. NCB does not comply with this requirement since it does not control the decisions of its Shareholders who are juristic persons.

The Directors confirm their compliance with the requirements of Articles 69 and 70 of the Companies Regulations. These Articles prohibit a director from having any interest, whether directly or indirectly, in the business or contracts of NCB or to participate in any competing business or engage in any commercial activities carried out by NCB without prior authorisation from the General Assembly of the Shareholders of NCB.

5 - 7 - 2 Board Committees

NCB has four board-level committees that report to the CEO and the Board of Directors under its corporate governance structure, as follows:

Table 5-10 NCB's four board-level committees reporting to the CEO and the Board of Directors under its corporate governance structure



Source: NCB

In order to comply with SAMA regulations, the Board has at least three Board Committees, an Executive Committee (EXCO), an Audit Committee, and a Compensation, Nomination and Governance Committee (CNGCO). In addition, the Board has established a Risk Committee.

5 - 7 - 2 - 1 Executive Committee ("EXCO")

A. Composition

EXCO consists of:

Table 5-11 EXCO Members

Name	Title
Mansour S. Al Maiman	Chairman
Saeed M. AlGhamdi	Member
Mutlaq A. Al-Mutlaq	Member
Abdulaziz A. Al-Zaid	Member
Ibrahim M. Al Romaih	Member

B. Purpose and authority

The primary purpose of EXCO is to have oversight and management responsibility of NCB's business operations and make prompt decisions on pressing issues in relation to NCB's businesses. EXCO ensures NCB is represented sufficiently on the boards of NCB's subsidiaries. EXCO also takes credit and remedial decisions. EXCO meets once a month.

5 - 7 - 2 - 2 Compensation, Nomination and Governance Committee ("CNGCO")

A. Composition

CNGCO consists of:

Table 5-12 CNGCO Members

Name	Title
Mutlaq A. Al-Mutlaq	Chairman
Abdulrahman M. Al Mofadhi	Member
Yousef A. Al Maimani	Member
Ibrahim M. Al Romaih	Member
Dr. Khalid A. Al Arfaj	Member

B. Purpose and authority

The primary purpose of the CNGCO is to support and advise the Board on matters concerning compensation, nomination, corporate governance and human resources. It supports the Board in fulfilling their responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance. CNGCO also makes recommendations to the Board that promote appropriate remuneration policies and practices for NCB and oversee that these remuneration policies and practices are in the interests of NCB's Shareholders and do not induce participation in taking high risk transactions to achieve short-term profits. CNGCO supports the Board to set an appropriate succession policy for replacement, in case of vacancies, of its members to ensure continuity and graduation in the process of replacement and coordinates with Human Resources to develop a succession and replacement policy and ensure the compliance of the Senior Management with such policy. CNGCO also takes a leadership role in shaping corporate governance policies and practices, including recommending to the Board the Corporate Governance Guidelines applicable to NCB and monitoring NCB's compliance with such policies and guidelines. The CNGCO meets at least twice per year

5 - 7 - 2 - 3 Audit Committee

A. Composition

Members of the Audit Committee are appointed by the Board. The Audit Committee is comprised of at least five independent members, all of whom are non-executive. It includes more members from outside the Board, than from within the Board.

No member may serve on the audit committees of more than two other public companies, unless the Board determines that simultaneous service would not impair the ability of the Audit Committee member to effectively serve on the Audit Committee.

Membership of the Audit Committee excludes the Chairman of the Board, Senior Managers, employees, major clients and agents of NCB. In selecting the members of the Audit Committee, preference shall be given in general to non-Board members provided that Audit Committee members have no (financial, commercial, etc.) relationship with NCB, or family relations with a member of the Board or a leading NCB employee, and further provided that SAMA has no objection to a member of the Audit Committee, including its Chairman.

The Audit Committee membership term is a maximum of three years with the option of re-election up to two terms in total and is tied to the term of Audit Committee members who are also Board members, expiring upon the appointment of a new Board by the next general shareholders meeting.

The Audit Committee members are financially literate, having academic qualification and professional experience in auditing and risk management. The Audit Committee also includes a specialist in finance and accounting.

The Board appoints one of the Audit Committee members as the Chairman of the Audit Committee for a maximum of three years, provided the member does not have any relationship with executive Directors or key executives of NCB.

No Audit Committee member may deputise another member to act on their behalf.

The Audit Committee consists of:

Table 5-13 Audit Committee Members

Name	Title
Prof. Dr. Saad S Alrwaita	Chairman
Dr. Khalid A. Al Arfaj	Member
Dr. Saleh H. Alshinifi	Member
Khalid M. Al Solai	Member
Hani S. Al Shadoukhi	Member

For further information in relation to the biographical details of each member of the Audit Committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The primary purpose of the Audit Committee is to assist the Board in monitoring the integrity of financial statements and transactions of the Group and systems of internal controls for financial reporting. The Audit Committee also ensures the Group's compliance with legal and regulatory requirements and is responsible for the qualification, independence and performance of the Group's external auditors and the lead partner of such auditors.

The Audit Committee is accountable to the Board which shall determine the Audit Committee's scope of work and shall assist the Board in meeting its responsibilities.

5 - 7 - 2 - 4 Risk Committee

A. Composition

The Risk Committee consists of:

Table 5-14 Risk Committee Members

Name	Title
Mansour S. Al Maiman	Chairman
Saeed M. AlGhamdi	Member
Abdulrahman M. Al Mofadhi	Member
Dr. Khalid A. Al Arfaj	Member
Yousef A. Al Maimani	Member

For further information in relation to the biographical details of each member of the Risk Committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

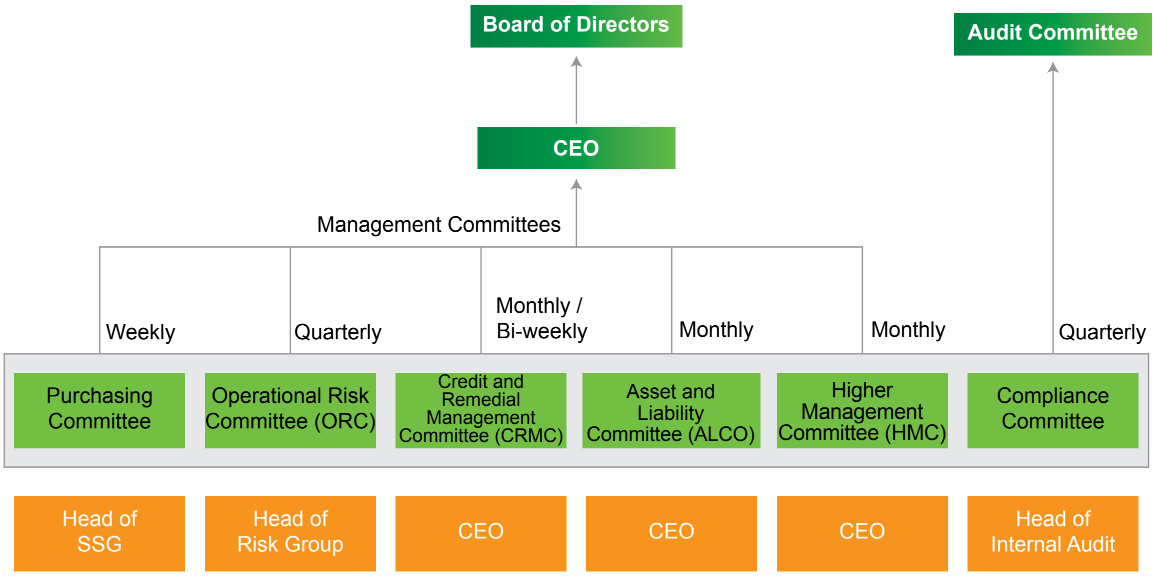
B. Purpose and authority

The primary purpose of the Risk Committee is to oversee risk management within NCB. The Risk Committee meets at least four times per calendar year.

5 – 7 – 3 Management Committees

NCB has six management-level committees that report to the CEO and the Board of Directors under its corporate governance structure, as follows:

Table 5-15 NCB's six management-level committees reporting to the CEO and the Board of Directors under its corporate governance structure



Source: NCB

5 – 7 – 3 – 1 Higher Management Committee ("HMC")

A. Composition

The following table sets out the names of the members of the HMC as at the date of this Prospectus:

Table 5-16 Members of the HMC as at the date of this Prospectus

Name	Title
Saeed M. AlGhamdi	Chairman
Khalid Abdulmalik Al Sharif	Member
Bleihid Al Otaibi	Member
Hamed Fayez	Member
Lama A. Ghazzaoui	Member
Edward Wess	Member
Talal Al Khereiji	Member
Peter Yarrington	Member
Faisal Al-Sakkaf	Member
David Robert Green	Secretary

For further information in relation to the biographical details of each member of the Higher Management Committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors* *and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The primary purpose of the HMC is to provide a forum for NCB's Board and Senior Management to monitor NCB's financial performance, enable effective collaboration, monitor customer experience, oversee execution of NCB's strategic initiatives and resolve issues escalated by other committees of NCB. The HMC meets monthly.

5 - 7 - 3 - 2 Asset and Liability Management Committee ("ALCO")

A. Composition

The following table sets out the names of the members of ALCO as at the date of this Prospectus:

Table 5-17 Members of ALCO as at the date of this Prospectus

Name	Title
Saeed M. AlGhamdi	Chairman
Khalid Abdulmalik Al Sharif	Member
Hamed Fayez	Member
Lama A. Ghazzaoui	Member
Edward Wess	Member
Talal Al Khereiji	Member
Faisal Al-Sakkaf	Member
Dr Saeed Al Sheikh	Member
Mohammed Nouri	Member and Secretary

For further information in relation to the biographical details of each member of the Asset and Liability Management Committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The ALCO is accountable for balance sheet (asset liability) risk management. The ALCO has a framework for making strategic decisions regarding the mix and maturities of assets and liabilities and the level of medium/long term interest rate risk NCB is willing to accept. It also reviews the financial risk and capital management of NCB. The ALCO discusses and assesses NCB's ability to withstand liquidity shortfalls, the long-term embedded commission rate risk in its balance sheet and the capital adequacy ratios of NCB. The ALCO meets monthly.

5 - 7 - 3 - 3 Operational Risk Committee ("ORC")

A. Composition

The following table sets out the names of the members of the ORC as at the date of this Prospectus:

Table 5-18 Members of the ORC as at the date of this Prospectus

Name	Title
Edward Wess	Chairman
Fuad Abdullah Al-Harbi	Member
Khalid Abdulmalik Al Sharif	Member
Hamed Fayez	Member
Peter Yarrington	Member
Talal Al Khereiji	Member
Abdullah A. Al Farraj	Member
Mazen Al Dhabi	Member and Secretary

For further information in relation to the biographical details of each member of the Operational Risk Committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The primary purpose of the ORC is to provide oversight and facilitate the activities for evaluating exposure to operational risk as well as directing/coordinating the principal measures for intervention, mitigation and transfer of risk across the Group's businesses. The ORC meets quarterly.

The ORC also plays a major role in setting a policy to combat fraud and ensures that policies, measures and procedures included in the comprehensive strategy for fraud control are applied effectively.

5 - 7 - 3 - 4 Credit and Remedial Management Committee ("CRMC")

A. Composition

The following table sets out the names of the members of the CRMC as at the date of this Prospectus:

Table 5-19 Members of the CRMC as at the date of this Prospectus

Name	Title
Saeed M. AlGhamdi	Chairman
Khalid Abdulmalik Al Sharif	Member
Hamed Fayez	Member
Lama A. Ghazzaoui	Member
Edward Wess	Member

Name	Title
Zahid Hummusani	Member
Hisham Al Qatari	Member and Secretary

For further information in relation to the biographical details of Saeed M. AlGhamdi, Khalid Abdulmalik Al Sharif, Hamed Fayez, Lama A. Ghazzaoui and Edward Wess please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The primary purpose of the CRMC is taking credit decisions and monitoring credit activities within the discretionary authority delegated by the Executive Committee and the Board. The CRMC meets monthly (remedial topics) and bi-weekly (credit decisions).

The CRMC acts as the Senior Management agency for the remediation of credit risk in NCB, oversees business' management of delinquencies, past due obligations, collections and other credit/loan remediation efforts, administers NCB's policies for loan loss provisions and write-offs and ensures that sufficient provisions exist at any given time to absorb any credit-related costs.

5 - 7 - 3 - 5 Purchasing Committee

A. Composition

The following table sets out the names of the members of the Purchasing Committee as at the date of this Prospectus:

Table 5-20 Members of the Purchasing Committee as at the date of this Prospectus

Name	Title
Peter Yarrington	Chairman
Lama A. Ghazzaoui	Member
Saad Al Abdali	Member
Saleh M. Saleh	Member
Salem Bin Mahfouz	Member
Firas Alkhateeb	Member and Secretary

For further information in relation to the biographical details of each Peter Yarrington and Lama A. Ghazzaoui please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The primary purpose of the Purchasing Committee is to oversee the tendering procurement practices of NCB. It is responsible for reviewing and approving all purchases in accordance with NCB's delegation of authority matrix. The Purchase Committee meets weekly.

5 - 7 - 3 - 6 Compliance Committee ("CC")

A. Composition

The following table sets out the names of the members of the CC as at the date of this Prospectus:

Table 5-21 Members of the CC as at the date of this Prospectus

Name	Title
Abdullah A. Al Farraj	Chairman
Fuad Abdullah Al-Harbi	Member
Waleed Abdul Shakoor	Member
Waseem A. Mattar	Member and Secretary

For further information in relation to the biographical details of each member of the Compliance Committee please see section 5-2 "*Directors, Senior Executives and Corporate Governance – Board of Directors and Secretary of the Board*" or section 5-5 "*Directors, Senior Executives and Corporate Governance – Senior Management*", as applicable.

B. Purpose and authority

The primary purpose of the CC is to assist the Board in fulfilling its oversight responsibilities in ensuring that the following are fully complied with in accordance with all regulatory requirements:

- compliance with all applicable legal and regulatory requirements and ethical standards; and
- the performance of the compliance function and anti-money laundering.

The CC meets quarterly.

5 - 8 NCB's Undertakings after the Subscription

NCB undertakes to fulfil the following, after the Subscription:

- To apply the accumulative voting method in the General Assembly of Shareholders in relation to the appointment of the members of the Board, and provide the Corporate Governance Department with a time schedule for the implementation of the accumulative voting method. The accumulative voting method is a voting method that grants each Shareholder a voting right according to the number of Shares that he owns, through which he is either entitled to vote for one nominee or to divide his votes among the nominees that the Shareholder selects, without any repetition of such votes.
- To provide precise responses to all the paragraphs of Form (8) issued by the CMA, and to state the reasons where there is non-compliance with the Corporate Governance Regulations, and to declare in the Board report the articles that NCB failed to comply with along with the relevant reasons.
- To abide by the provisions of the Listing Rules and the Corporate Governance Regulations when drafting the Board's report.
- To comply with all the mandatory Articles contained in the Corporate Governance Regulations within 6 months of the Subscription.
- To provide the CMA with complete information regarding its related party transactions; display this matter in a detailed manner at the first upcoming General Assembly held by NCB after the Subscription; and disclose the same in the Board's report.
- To provide the CMA with a copy of the conflict of interest management policy prepared by the Board within six months of the Subscription.
- To provide the Companies Department with the date of convening the first upcoming General Assembly of Shareholders after the Subscription, in order for the Compliance Department to arrange for its attendance.

- To provide the CMA with copies of the minutes of the General Assemblies of Shareholders within 10 days as of the meeting date, and inform the Tadawul of the results of the general meetings immediately after their completion.
- To notify the CMA and the Tadawul immediately upon termination of the term of a member of the Board and indicate the reasons for such termination.

5 – 9 Employees

Set out below are tables of employees of NCB and, NCB, and TFKB as at 30 June 2014G, 31 December 2013G and 31 December 2012G, broken down by department. As to REDCO and Al Ahli Insurance Services Marketing Company, both are managed by employees of NCB and do not have any employees outside NCB.

Table 5-22 Employees of NCB broken down by function

Department	As of 30 June, 2014G				As of 31 December, 2013G				As of 31 December, 2012G			
	Total	Saudis	Non-Saudis	Saudisation Rate	Total	Saudis	Non-Saudis	Saudisation Rate	Total	Saudis	Non-Saudis	Saudisation Rate
Senior Management	20	16	4	80.00%	19	16	3	84.20%	24	16	8	66.70%
Strategy and Business Development	137	121	16	88.30%	142	124	18	87.30%	535	459	76	85.80%
Compliance	62	57	5	91.90%	57	51	6	89.50%	51	46	5	90.20%
Treasury	82	69	13	84.10%	80	68	12	85.00%	183	146	37	79.80%
Sharia	14	5	9	35.70%	13	4	9	30.80%	140	123	17	87.90%
Legal	45	35	10	77.80%	42	33	9	78.60%	91	71	20	78.00%
Finance	136	106	30	77.90%	145	114	31	78.60%	41	32	9	78.10%
Shared Services	1,090	936	154	85.90%	1119	948	171	84.70%	4,270	4,172	98	97.70%
Risk	110	93	17	84.50%	94	78	16	83.00%	117	92	25	78.60%
Internal Audit	91	74	17	81.30%	80	63	17	78.80%	112	93	19	83.00%
Corporate Banking	537	479	58	89.20%	588	525	63	89.30%	11	4	7	36.40%
Retail Banking	4,881	4,803	78	98.40%	4,617	4,536	81	98.30%	1,042	845	197	81.10%
Human Resources	126	106	20	84.10%	123	106	17	86.20%	73	61	12	83.60%
Total	7,331	6,900	431	94.12%	7,119	6,666	453	93.64%	6,690	6,160	530	92.08%

Source: NCB

Table 5-23 NCBC employees, distributed by function

Department	As of 30 June, 2014G				As of 31 December, 2013G				As of 31 December, 2012G			
	Total	Saudis	Non-Saudis	Saudisation Rate	Total	Saudis	Non-Saudis	Saudisation Rate	Total	Saudis	Non-Saudis	Saudisation Rate
Asset Management	30	24	6	80%	31	23	8	74%	30	22	8	73%
Wealth Management	67	62	5	93%	78	74	4	95%	83	75	8	90%
Compliance	10	10	0	100%	11	10	1	91%	13	11	2	85%
Securities	40	39	1	98%	46	42	4	91%	39	38	1	97%
Business Development*	7	4	3	57%	--	--	--	--	--	--	--	--
IT	2	0	2	0%	5	1	4	20%	11	6	5	55%
Operations	32	26	6	81%	29	22	7	76%	30	21	9	70%
Legal*	3	2	1	67%	--	--	--	--	--	--	--	--
Finance	8	8	0	100%	8	7	1	88%	13	9	4	69%
Risk	4	3	1	75%	5	3	2	60%	4	2	2	50%
Internal Audit	4	3	1	75%	4	2	2	50%	--	--	--	--
Investment Banking	5	4	1	80%	6	4	2	67%	8	5	3	63%
Office of the CEO	5	4	1	80%	8	4	4	50%	14	10	4	71%
Office of the COO	10	9	1	90%	11	9	2	82%	10	7	3	70%
Human Resources	6	5	1	83%	7	6	1	86%	7	6	1	86%
Total	233	203	30	87%	249	207	42	83%	262	212	50	81%

Source: NCB

* Department established in 2014

Table 5-24 TFKB employees, distributed by function

Department	As of 30 June 2014G	As of 31 December 2013G	As of 31 December 2012G
Senior Management	13	12	12
Commercial	17	15	14
Small- and Medium-sized Enterprises	59	56	47
Retail	73	46	39
Human Resources	41	41	42
Distribution and Services	246	187	142
Accreditations	185	172	169
Operations and Strategy	278	282	266

Department	As of 30 June 2014G	As of 31 December 2013G	As of 31 December 2012G
IT	284	276	207
Finance	132	126	120
Treasury	30	26	24
Audit*	96	96	95
Legal	34	30	26
Branches, Regional Offices, and Others	2,909	2,625	2,392
Total	4,397	3,990	3,595

*Includes Internal Audit, Internal Control, Risk Management, and Compliance

Source: NCB

One of NCB's strategic priorities is to become the employer of choice among banks in the region. NCB encourages a performance culture which is designed to attract, develop and retain the best available talent. The essential principles underpinning this culture are fairness, reward, development, leadership, communication, infrastructure, feedback and team work. NCB also provides regular training to its staff at all levels across the Group. In 2012G, NCB implemented a new approach to staff training, with a particular focus on strategic and technical training (78% relative to 22% soft skills training). The Training and Development department has also worked hand in hand with the Talent Acquisition department to ensure that all new hires for NCB's branches go through dedicated accreditation programmes, which involve classroom face-to-face training on various topics including general induction to NCB, regulatory training e.g. anti-money laundering, anti-fraud, compliance, policies and procedures and other soft skills relating to the specific nature of their role (for example, tellers or customer service representatives). This approach was introduced to provide a pipeline of employees for NCB's branches and to minimise delays in training and preparing newly-hired branch staff to take on their roles.

NCB's training model moved in 2013G from an entirely outsourced learning function to developing its in-house capabilities in delivering a high quality curricula in the areas of Sales, Corporate Banking, Leadership and Management, as well as soft skills (including presentation skills, communication skills, time management, handling complaints, service excellence).

NCB launched the following programmes as part of its new training model:

- Accreditation Programs (which are designed to equip front-line staff with higher-order skills) in the Branch Network, QuickPay, Call Centre, Private Banking and Small and Medium Enterprises (SME) areas.
- Simulation Training was also introduced to offer a bridge between classroom learning and real-life banking experience.
- NCB Academies were designed to cover various learning solutions for different business groups and all grade levels and was launched in September 2014G.
- Rowad Al Ahli, which has already been acknowledged to be one of the best Graduate Development Programmes in the Kingdom, was introduced in early 2014G. The first class of Rowad Al Ahli program (18 Graduates) have been graduated, and a second one of 19 Graduates will be graduated at the end of May 2015G.
- The E-learning platform comprising approximately 500 e-courses, will be launched in the end of September 2014G.
- A full-service training centre is being constructed in the Eastern region of the Kingdom to satisfy the development needs of NCB's employees in the Eastern region.
- In 2013G, NCB convened 48,633 training days for 5605 employees of all grades. As at 31 March 2014G, NCB had convened a total of 17,550 training days.

These programmes are all designed to assist NCB in achieving one of its strategic aspirations of being the employer of choice in the region.

5 – 10 Employee Share Scheme

NCB does not have any employee share schemes in place, or any other arrangements which would allow any employees of NCB (including the Senior Management) to acquire any capital of NCB.

5 – 11 Commitment to Saudisation

NCB and its subsidiaries incorporated in the Kingdom follow an ambitious policy of Saudisation. NCB has been supportive of the Kingdom's goal to eliminate unemployment and create job opportunities for its citizens and has been increasing its efforts to support it. As at 30 May 2014G, NCB and its subsidiaries incorporated in the Kingdom had an overall Saudisation rate of 93.9%. NCB and its subsidiaries are classified under the *Platinum* category of the *Nitaqat* program.

According to the *Nitaqat* program, the Saudisation requirements for companies are based on the comparison of companies within the same industry. Companies are classified under four categories. the Red category applies to companies that do not comply with "*Nitaqat"* program requirements. The Yellow category applies to companies that do not comply with *Nitaqat* program requirements but have a higher percentage of Saudi workers. The Green category applies to companies that comply with *Nitaqat* program requirements. The Platinum category applies to companies that comply with the *Nitaqat* program requirements and where the number of Saudi workers exceeds a certain percentage. The Ministry of Labour has classified the head office of NCB as an institution in the financial services sector. Pursuant to the Nitaqat Guidelines issued by the Ministry of Labour under Publication No.(1/1435H), institutions operating in the financial services sector are required to achieve the Saudisation ratios set out in the table below in order to be classified under the platinum band.

The following is a summary of the classification of institutions operating in the field of financial services in accordance with each band of *Nitaqat* bands:

Table 5-25 Summary of the classification of institutions operating in the field of financial services

Employees		Distribution Ranges by Saudisation Ratios as they are Declared by the Ministry of Labour										
From	To	Red		Yellow		Low Green		Med Green		High Green		Platinum
10	49	0%	9%	10%	29%	30%	46%	47%	63%	64%	79%	80%
50	499	0%	19%	20%	49%	50%	62%	63%	75%	76%	90%	90%
500	2999	0%	49%	50%	64%	65%	72%	73%	80%	81%	90%	90%
3000	-	0%	49%	50%	64%	65%	72%	73%	80%	81%	90%	90%

Source: Ministry of Labour

The "platinum" band provides several incentives for the employer, the most significant of which may be summarized as follows: issuing new visas for any profession the employer requests, issuing additional visas, the ability to change the profession of labourers who work for the employer to other professions (except those excluded by resolutions of the Council of Ministers or by Royal Decrees) and the ability to renew work permits for expatriate labourers who work for the employer.

The "green" band provides several incentives for the employer, the most significant of which may be summarized as follows: the application to approve new visas and to change the profession of labourers who work for the employer and grant the company replacement visas to replace the labourers leaving on a final exit visa from the Kingdom and the ability to renew work permits for expatriate labourers who work for the employer.

There are several implications resulting from falling under the "yellow" band, the most significant of which are: rejecting applications for new visas, denying the transfer of expatriate labourers, denying the change of expatriate labourers' professions, denying the renewal of work permits for expatriate labourers who work for the employer and who have spent a total of six (6) years or more in the Kingdom and denying the issuance of work permits for new expatriate labourers. However, the employer may renew the work permits for expatriate labourers who work for the employer if the remaining time on the labourers residency permit (*iqama*) is not more than three (3) months at the time of renewal.

In relation to the "red" band, the most significant implications of falling under this category are: denying the change of professions for expatriate labourers who work for the employer, denying the transfer of expatriate labourers, rejecting applications for new visas, denying work permits for new expatriate labourers, not allowing the opening of a file for a new entity or new branch, denying the renewal of work permits for labourers who work for the employer.

According to the *Nitaqat* certificate dated 14 July 2014G, NCB has 7,268 employees, of whom 6,819 are Saudi nationals, providing an overall Saudisation percentage of 93.92%.

On 11/01/1434H (corresponding to 24 November 2012G) NCB was fined 1,280,500 Saudi Riyals by SAMA for a failure to comply with SAMA's instructions relating to certain of NCB's employees in Mekka. In order to prevent future failures, NCB informed all of its heads of department of the obligation to ensure Saudisation of all branch employees and all jobs relating to communications with SAMA. NCB's heads of departments subsequently prepared Saudisation plans for their respective departments.

On 20/03/1433H (corresponding to 12 February 2012G), NCB was fined 300,000 Saudi Riyals by SAMA for the provision of erroneous information to SAMA regarding the number of NCB's employees. NCB has taken all necessary measures to prevent the recruitment of non-Saudi nationals in all of NCB's branches except for remittance centres given that these centres provide services substantially to expatriates in the Kingdom and require communication in the same language as customers.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

6 – 1 Introduction

The following Management Discussion and Analysis ("MD&A") of the financial results of the Group has been prepared by Senior Management on a consolidated basis and is based upon, and should be read in conjunction with the 2011G audited consolidated Financial Statements, the 2012G audited consolidated Financial Statements, the 2013G audited consolidated Financial Statements and the Financial Statements of the six month periods ended 30 June 2013G (unaudited) and 30 June 2014G, together being the Financial Statements. Unless otherwise specified, the financial information presented in this discussion has been derived from the Financial Statements.

The Auditors do not themselves, nor do any of the partners or employees of the Auditors (nor any relatives of such partners or employees) have any shareholding or interest of any kind in the Group. The Auditors have furnished and not withdrawn their written consent to the reference in this Prospectus as to their role as auditors of the Group for the three financial years ended 31 December 2013G, 31 December 2012G and 31 December 2011G and the interim financial periods ended 30 June 2013G and 30 June 2014G.

This section, prepared by the Company's management, contains historical information or projected information that involves a number of risks and unconfirmed data. The Group's actual performance may differ materially and adversely from historical performance as a result of certain factors mentioned in this Prospectus.

The figures in this MD&A have been rounded up to the nearest number. As such, if summed, the numbers may differ to those which are stated in the tables. Annual percentages, margins, expenses and CAGRs are based on the rounded figures.

6 – 2 Directors' Declaration for Financial Statements

The Directors declare that the financial information presented in this MD&A is extracted without material change from the audited consolidated Financial Statements and that such statements have been prepared in accordance with accounting standards for financial institutions promulgated by SAMA and IFRS.

The Directors acknowledge that there is no intention to make any fundamental change in the nature of the activity of the Group and that the Group operations did not stop in a way that could affect or have significantly affected the Group's financial position during the past twelve months from the date of this Prospectus. The Directors also acknowledge that there has been no material adverse change in the financial position or prospects of the Group during the last three financial years, in addition to the period from 31 December 2013G until 30 June 2014G. The Directors declare that there has been no material adverse change in the financial position or business of the company since the period ended 30 June 2014G until the date of this Prospectus.

The Directors also declare that no commissions, discounts, brokerages or other non-cash compensation were granted by the Group or any member of its subsidiaries to any member of the Board or the Senior Management in relation to the Subscription in the three years immediately preceding the date of this Prospectus.

The Directors also declare that the Group has working capital sufficient for the twelve months immediately following the date of publishing this Prospectus.

6 – 3 Summary of Main Accounting Policies

The Bank prepares consolidated financial statements that are audited in accordance with accounting standards that are applicable to financial institutions and issued by SAMA and IFRS. The Bank also prepares its consolidated and audited financial statements in a manner that complies with the Banking Control Law and the Companies Law in the Kingdom of Saudi Arabia.

6 - 3 - 1 Basis of consolidation

The consolidated financial statements comprise the financial statements of NCB and its subsidiaries: NCBC and its subsidiaries, TFKB, and the Real Estate Development Company for Management & Ownership, LLC. NCBC also includes the financial statements of Eastgate and NCBC Investment Management Umbrella Company in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Group, using consistent accounting policies.

6 - 3 - 1 - 1 Subsidiaries

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

a) the Group has power over the entity;

b) the Group has exposure, or rights, to returns through its involvement with the entity; and

c) the Group has the ability to use its power over the entity to affect the entity's returns.

The subsidiaries financial statements are consolidated from the date on which control is transferred to NCB and cease to be consolidated from the date on which NCB no longer has control over it. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of purchase or until the date of the sale, as appropriate.

6 - 3 - 1 - 2 Non-controlling Interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries that are not owned, directly or indirectly, by NCB in its subsidiaries. They are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from NCB 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.

6 - 3 - 1 - 3 Associates

Associates are enterprises over which NCB exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for according to the equity method of accounting and are carried in the consolidated statement of financial position at the equity-accounted amount or the recoverable amount, whichever is lower.

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

Previously-established impairment losses resulting from investment in associates may be recovered through the consolidated statement of income, such that the book value of these investments in the financial position remains at the equity-accounted amount (before being discounted for impairment) or the recoverable amount, whichever is lower. With disposal, the difference between the book value of investments in associated companies and the fair value of the consideration received is recorded in the audited consolidated income statement.

6 - 3 - 1 - 4 Transactions eliminated when consolidating the financial statements

Balances, income, and expenses (except for foreign currency transaction profits or losses) arising from inter-group transactions are eliminated when the consolidated financial statements are prepared.

6 – 4 Overview of Financial Results

The Group's total assets base grew by 44.6% from 301,198 million Saudi Riyals at 31 December 2011G to 435,530 million Saudi Riyals at 30 June 2014G, primarily due to:

- Loans and advances, which represented approximately 47.3% of total assets at 30 June 2014G, increased by 70,906 million Saudi Riyals over the period commencing 1 January 2011G to 30 June 2014G largely driven by the loans portfolio growth of NCB (increase of 55,598 million Saudi Riyals), and to a lesser extent, of TFKB (increase of 15,312 million Saudi Riyals).
- Investments securities, which represented approximately 37.6% of total assets at 30 June 2014G. They were mainly comprised of fixed-rate debt instruments (124,689 million Saudi Riyals) primarily held at NCB (approximately 78.1% of total investments). They slightly fluctuated over the period, driven by (i) a decrease in vintage SGDB positions which matured in 2012G and 2013G, and (ii) the purchase of MENA securities and US treasury bonds in early 2013G.
- Cash and balances with SAMA, which were primarily held at NCB (31,546 million Saudi Riyals at 30 June 2014G), and mainly related to (i) money market placements on reverse repurchase agreements made against SGDBs and SAMA-bills (5,892 million Saudi Riyals), and (ii) statutory deposits with SAMA (19,892 million Saudi Riyals). Cash and balances with SAMA increased significantly over the period commencing 1 January 2011G to 30 June 2014G (by 7,379 million Saudi Riyals, or increase of 29.9%) largely driven by an increase in money market placements as a result of an inflow of liquidity from maturing SAMA bills.
- Customer's deposits held by NCB (315,164 million Saudi Riyals, or approximately 91.2% of total deposits) and mainly consisted of NIBs. They have grown by 44.3% from 239,458 million Saudi Riyals at 31 December 2011G to 345,597 million Saudi Riyals at 30 June 2014G primarily driven by NCB, in-line with the overall Saudi economy growth and the Group's branch expansion.

At 30 June 2014G the Group reported a capital adequacy ratio of 18.1% which is above the 8.0% mandated by Basel III.

The Group's net income increased over the three years period starting at 1 January 2011G and ending at 31 December 2013G at a CAGR of 14.4% to reach approximately 7,989 million Saudi Riyals in financial year 2013G primarily as a result of the following:

- A 1,541 million Saudi Riyals increase in special commission income over the period, largely driven by the loans' income from both NCB (increase of 866 million Saudi Riyals) and TFKB (increase of 688 million Saudi Riyals) in-line with their respective loans portfolio growth. The slight increase in special commission expense (increase of 109 million Saudi Riyals) is primarily driven by TFKB (increase of 287 million Saudi Riyals) which experienced a shift in its funding mix from deposits towards bank borrowings over the period. This decrease in NCB special commission expense was partly offset by the result of an overall shift from time deposits (i.e. interest bearing deposits) to NIBs over the period.
- A 764 million Saudi Riyals increase in other operating income mainly driven by exchange income from banking services (increase of 213 million Saudi Riyals) and gains on non-trading investments (increase of 321 million Saudi Riyals) resulting from an increase in the number of transactions by NCB customers and the pre-emptive sale of European securities in light of the weakening economic landscape, respectively.

The Group's net income grew by 14.3% between the first half of 2013G and the first half of 2014G mainly driven by special commission income growth of 10.5%, coupled with a drop in impairment charges as a result of higher recoveries in the first half of 2014G.

6 – 5 Consolidated Statement of Income

Table 6-1 Consolidated statement of income

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Special commission income	10,185	11,096	11,726	6,567	5,944	8.9%	5.7%	10.5%	7.3%
Special commission expense	(1,604)	(2,137)	(1,713)	(1,067)	(865)	33.2%	(19.8%)	23.4%	3.3%

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Net special commission income	8,581	8,959	10,013	5,500	5,079	4.4%	11.8%	8.3%	8.0%
Fee income from banking services, net	2,482	2,960	3,019	1,715	1,652	19.3%	2.0%	3.9%	10.3%
Exchange income, net	474	547	687	361	325	15.4%	25.6%	11.2%	20.4%
Income from FVIS investments, net	(87)	116	119	61	62	(233.3%)	2.6%	(3.2%)	na
Trading income, net	147	81	100	51	53	(44.9%)	24.7%	(4.4%)	(17.1%)
Dividend income	66	99	90	88	62	50.0%	(9.1%)	41.3%	16.8%
Gains on non-trading investments, net	325	602	646	341	527	85.2%	7.3%	(35.2%)	41.0%
Other operating income, net	144	145	190	(38)	6	0.7%	31.0%	(774.1%)	14.9%
Total operating income	12,132	13,509	14,864	8,079	7,766	11.4%	10.0%	4.0%	10.7%
Salaries and employee-related expenses	2,480	2,595	3,005	1,584	1,528	4.6%	15.8%	3.7%	10.1%
Rent and premises-related expenses	449	501	574	315	305	11.6%	14.6%	3.3%	13.1%
Depreciation of property and equipment	352	414	479	245	232	17.6%	15.5%	5.4%	16.5%
Amortisation of intangible assets	197	190	190	94	95	(4.5%)	0.0%	0.0%	(2.3%)
Other general and administrative expenses	1,260	1,526	1,555	736	702	21.1%	1.9%	4.9%	11.1%
Impairment charge for credit losses, net	1,033	1,436	795	114	416	39.0%	(44.6%)	(72.6%)	(12.3%)
Impairment charge on investments, net	22	-	40	98	22	(100.0%)	na	341.5%	34.8%
Total operating expenses	5,794	6,661	6,638	3,187	3,300	15.0%	(0.4%)	(3.4%)	7.0%
Income from operating, net	6,338	6,848	8,229	4,893	4,466	8.0%	20.2%	9.6%	13.9%
Other (expenses)									
Social responsibility projects	(54)	(58)	(53)	(3)	(28)	7.4%	(8.6%)	(90.7%)	(0.9%)

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Other operating income / (expenses), net	(179)	(176)	(184)	144	(33)	(1.7%)	4.5%	na	1.4%
Net other (expenses)	(233)	(234)	(237)	141	(61)	0.4%	1.3%	na	0.9%
Net income for the year	6,106	6,613	7,989	5,034	4,405	8.3%	20.8%	14.3%	14.4%

Source: Consolidated audited financial statements and Management information

This section summarizes the main historical financial results trends at a consolidated Group level, where all key components for the three financial years ended 31 December 2011G, 2012G and 2013G and the six month periods ending 30 June 2013G and 30 June 2014G are discussed in detail below.

6 - 5 - 1 Special commission income

6 - 5 - 1 - 1 Special commission income by entity

Table 6-2 Special commission income by entity

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
NCB	8,017	8,369	8,883	4,949	4,524	4.4%	6.1%	9.4%	5.3%
TFKB	2,164	2,727	2,852	1,625	1,421	26.0%	4.6%	14.4%	14.8%
Others*	4	1	-	-	-	(75.0%)	(100%)	na	0.0%
Total before consolidation adjustments	10,185	11,097	11,735	6,574	5,945	9.0%	5.7%	10.6%	7.3%
Consolidation adjustments	-	(1)	(9)	(7)	(1)	na	na	na	na
Total after consolidation	10,185	11,096	11,726	6,567	5,944	8.9%	5.7%	10.5%	7.3%

* Others relate to NCBC

Source: Consolidated audited financial statements and Management information

Total special commission income increased over the period commencing 1 January 2011G to 31 December 2012G by 8.9%, mainly driven by TFKB which grew by 26.0%, due to a growth in the SME loan portfolio, while NCB's special commission income grew by 4.4%, mostly driven by corporate special commission income.

Over the period commencing 1 January 2012G to 31 December 2013G, NCB's special commission income grew by 6.1%, again driven by a growth in corporate special commission income, while TFKB's special commission income growth was 4.6% driven by a growth in the corporate loans portfolio. This resulted in an increase of 5.7% in the Group's special commission income over the period commencing 1 January 2012G to 31 December 2013G.

The annual change of the Group's special commission income between first half of 2013G and first half of 2014G was 10.5% from 5.944 million Saudi Riyals to 6.567 million Saudi Riyals, driven by both NCB, which grew by 9.4%, and TFKB, which grew by 14.4%.

6 - 5 - 1 - 2 Special commission income by nature – NCB

Table 6-3 Special commission income by nature - NCB

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Retail loans	3,287	3,217	3,368	1,932	1,717	(2.1%)	4.7%	12.5%	1.2%
Corporate loans	1,870	2,236	2,784	1,478	1,443	19.6%	24.5%	2.4%	22.0%
Banks & financial institutions	63	106	89	56	50	68.3%	(16.0%)	11.9%	18.9%
Other	76	100	87	4	15	31.6%	(13.0%)	(66.7%)	7.0%
Total	5,296	5,659	6,328	3,469	3,225	6.9%	11.8%	7.6%	9.3%
Income from investments	2,721	2,710	2,555	1,480	1,299	(0.4%)	(5.7%)	13.9%	(3.1%)
Total special commission income	8,017	8,369	8,883	4,949	4,524	4.4%	6.1%	9.4%	5.3%

Source: NCB Management Information

Overall, lending based special commission income has been growing year-on-year, achieving a CAGR of 9.3% over the period commencing 1 January 2011G to 31 December 2013G on the back of an expanding loan portfolio (CAGR of 16.4%) over the same period. The increase between the period commencing 1 January 2011G to 31 December 2012G in lending based special commission income was driven by corporate loans (366 million Saudi Riyals), offset by a slight drop in retail loans (70 million Saudi Riyals). In the period commencing 1 January 2012G to 31 December 2013G, retail and corporate loans both increased by 151 million Saudi Riyals and 548 million Saudi Riyals, respectively, leading to an 11.8% growth in lending based special commission income.

Special commission income from banks and financial institutions represents income from money market deposits and repos. Special commission income increased from the period commencing 1 January 2011G to 31 December 2012G mainly due to an increased allocation to money market deposits from 7,296 million Saudi Riyals at 31 December 2011G to 9,093 million Saudi Riyals at 31 December 2012G. In the period commencing 1 January 2012G to 31 December 2013G, income decreased as the money market deposits dropped to 5,258 million Saudi Riyals at 31 December 2013G.

Investment income is derived mainly from fixed income securities, the majority of which are classified as held at amortized cost.

Investment special commission income decreased by a CAGR of 3.1% over the period commencing 1 January 2011G to 31 December 2013G, mainly driven by NCB's strategy to redeploy excess liquidity, in the form of significant holdings of short maturity Treasury bills, to fund the growth in the retail and corporate loan books. For the period commencing on 1 January 2011G to 31 December 2013G, government securities (which includes Treasury bills) decreased from 48,848 million Saudi Riyals to 34,120 million Saudi Riyals.

NCB's special commission income in the period commencing 1 January 2014G to 30 June 2014G increased by 9.4% as compared to the period commencing 1 January 2013G to 30 June 2013G, mainly driven by special commission income from retail loans, which grew by 12.5%, and investments, which grew by 13.9%.

6 - 5 - 1 - 3 Special commission income from the Retail Banking Group loans – NCB

Table 6-4 Special commission income from the Retail Banking Group loans - NCB

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Personal finance	2,492	2,421	2,346	1,287	1,246	(2.8%)	(3.1%)	3.3%	(3.0%)
Auto lease	303	291	364	228	169	(4.0%)	25.1%	34.9%	9.6%
Credit cards	327	318	336	177	158	(2.8%)	5.7%	12.0%	1.4%
Residential finance	58	124	266	204	116	113.8%	114.5%	75.9%	114.2%
Private banking	62	49	50	34	24	(21.0%)	2.0%	39.3%	(10.2%)
Other	45	14	6	2	3	(68.9%)	(57.1%)	(41.2%)	(63.5%)
Total special commission income	3,287	3,217	3,368	1,932	1,717	(2.1%)	4.7%	12.5%	1.2%

Source: NCB Management Information

The RBG's special commission income has remained relatively stable over the period under analysis, growing at a CAGR of 1.2% (increase of 81 million Saudi Riyals) over the period commencing 1 January 2011G to 31 December 2013G.

While special commission income from personal loans has dropped over the period commencing 1 January 2011G to 31 December 2013G (decrease of 146 million Saudi Riyals) due to the intensity of competition, special commission income from RF offset this decrease by achieving triple digit growth in both periods commencing 1 January 2012G to 31 December 2012G and 1 January 2013G to 31 December 2013G (achieving a total annual increase of 208 million Saudi Riyals between 31 December 2011G and 31 December 2013G).

The majority of special commission income from PF is generated from *Tayseer* loans offered to individuals. The rates on PF loans are market driven. Despite the growth in the PF portfolio by a CAGR of 18.6% over the period commencing 1 January 2011G to 31 December 2013G, special commission income from PF has dropped by a CAGR of 3.0% over the same period due to intense market competition.

Special commission income from AL loans dropped in period commencing 1 January 2012G to 31 December 2012G as compared to the preceding period commencing 1 January 2011G to 31 December 2011G due to lower yields as a result of competition and the increase in the demand for smaller cars. In the period commencing 1 January 2013G to 31 December 2013G, AL special commission income went up again due to an increase in activated volumes as a result of leveraging corporate relationships with auto dealers to place sales agents in showrooms, for the purpose of incentivising them.

Special commission income from credit cards is earned from the three main credit card types: (i) *Tayseer, Shari'ah*-compliant card, (ii) AlFursan, a miles redemption partnership with Saudi Arabian Airlines, and (iii) Amyali, a miles redemption partnership with several airlines including Saudi Arabian Airlines.

Special commission income from credit cards remained relatively stable in the period commencing 1 January 2012G to 31 December 2012G (318 million Saudi Riyals) as compared to the period commencing 1 January 2011G to 31 December 2011G (327 million Saudi Riyals) due to approximately the same level of usage. In the period commencing 1 January 2013G to 31 December 2013G, credit card special commission income was mainly volume driven as usage and the size of the portfolio increased.

Special commission income from RF has grown at a CAGR of 114.2% over the period commencing 1 January 2011G to 31 December 2013G, mainly due to NCB increasing exposure to this sector in light of the Kingdom's Council of Ministers passing the landmark mortgage legislation in July 2012G. The triple digit growth resulted from an increase in the mortgage finance portfolio by 137.6% over the period commencing 1 January 2011G to 31 December 2013G.

NCB's special commission income from retail loans in the period commencing 1 January 2014G to 30 June 2014G increased by 12.5%, as compared to the period commencing 1 January 2013G to 30 June 2013G, a n d was mainly driven by an overall increase in the retail loan portfolio (which increased by 19.8%). This increase in special commission income from retail loans was mainly driven by residential finance, which increased by 88 million Saudi Riyals, and AL, which increased by 59 million Saudi Riyals over the same period.

6 - 5 - 1 - 4 Special commission income from the Corporate Banking Group loans – NCB

Table 6-5 Special commission income from the CBG loans – NCB

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Institutional banking	1,118	1,202	1,195	492	483	7.5%	(0.6%)	1.9%	3.4%
Corporate banking	374	485	519	164	143	29.7%	7.0%	14.7%	17.8%
SME banking	246	372	518	236	174	51.2%	39.2%	35.6%	45.1%
Structured finance	-	10	258	506	426	na	2480.0%	18.8%	na
Financial restructuring	77	85	229	42	181	10.4%	169.4%	(76.8%)	72.5%
Financial institutions	27	68	65	37	35	151.9%	(4.4%)	(2.6%)	55.2%
Other	28	14	-	3	-	(50.0%)	(100.0%)	na	0.0%
Total special commission income	1,870	2,236	2,784	1,478	1,443	19.6%	24.5%	2.2%	22.0%

Source: NCB Management Information

Over the years 2012G and 2013G, the CBG restructured its divisional segmentation and, accordingly, the inter-division 2012G versus 2013G figures for the Institutional Banking, Corporate Banking, SME banking, and Structured Finance divisions are not comparable.

Growth in CBG's special commission income between the period commencing 1 January 2011G to 31 December 2012G (19.6%) was a result of growth in the CBG loan portfolio (from 74,871 million Saudi Riyals at 31 December 2011G to 89,079 million Saudi Riyals at 31 December 2012G) across all divisions / departments with the exception of the financial restructuring department, whose portfolio decreased due to the write-off of 3 clients.

Over the period commencing 1 January 2013G to 31 December 2013G, CBG's special commission income increased by 24.5% following further expansion of the loan portfolio to 97,459 million Saudi Riyals.

CBG's special commission income increased over the review period by a CAGR of 22.0%, mainly driven by an increase in the corporate loan portfolio by a CAGR of 14.1% (from 74,871 million Saudi Riyals at 31 Dec 2011G to 97,459 million Saudi Riyals at 31 December 2013G).

NCB's special commission income from corporate loans in the period commencing 1 January 2014G to 30 June 2014G increased by 2.4% as compared to the period commencing 1 January 2013G to 30 June 2013G driven by SME (an increase of 62 million Saudi Riyals) and structured finance (an increase of 80 million Saudi Riyals), offset by a decrease in financial restructuring (a decrease of 139 million Saudi Riyals as there was no major restructuring activity in first six months of 2014G as compared to the first six months of 2013G).

6 - 5 - 2 Special commission expense

6 - 5 - 2 - 1 Special commission expense by entity

Table 6-6 Special commission expense by entity

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-13 Mgt.	YTD-Jun-14 Audited	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
TFKB	1,100	1,324	1,387	663	880	20.4%	4.8%	32.8%	12.3%
NCB KSA	505	826	328	214	183	63.6%	(60.3%)	(14.5%)	(19.4%)
Total before consolidation adjustments	1,605	2,150	1,715	877	1,063	34.0%	(20.2%)	21.3%	3.4%
Consolidation adjustments	(1)	(13)	(2)	(12)	4	na	na	na	na
Total after consolidation	1,604	2,137	1,713	865	1,067	33.2%	(19.8%)	23.4%	3.3%

Source: Consolidated audited financial statements and NCB Management Information

Special commission expense mainly represents the payments made to customers who hold time deposits at NCB and TFKB.

TFKB's special commission expense increased by 20.4% in the period commencing 1 January 2011G to 31 December 2012G and 4.8% in the period commencing 1 January 2012G to 31 December 2013G mainly driven by a shift in funding composition to borrowings in the form of term debt securities issued in 2012G and collateralized borrowings issued for the first time in 2013G.

NCB's special commission expense decreased by a CAGR of 19.4% over the period commencing 1 January 2011G to 31 December 2013G mainly as a result of a shift of accounts from time deposits to NIBs. In 2012G, NCB paid NIB accounts special commission expense, resulting in the increase of 63.6% for the period commencing 1 January 2011G to 31 December 2012G. As this payment did not occur in the period commencing 1 January 2013G to 31 December 2013G, special commission expense decreased by 60.3%.

The Group's special commission expense in the period commencing 1 January 2014G to 30 June 2014G increased by 23.4% as compared to the period commencing 1 January 2013G to 30 June 2013G, driven by TFKB, whose volume of deposits increased from 26,115 million Saudi Riyals at 30 June 2013G to 30,429 million Saudi Riyals at 30 June 2014G.

6 - 5 - 3 Net fee income from banking services by entity

Table 6-7 Net fee income from banking services by entity

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
NCB KSA	1,572	1,816	1,977	1,072	1,103	15.5%	8.9%	(2.8%)	12.1%
TFKB	463	508	566	273	288	9.7%	11.4%	(5.4%)	10.6%
Others*	466	637	476	370	259	36.7%	(25.3%)	42.8%	1.1%
Total before consolidation adjustments	2,501	2,961	3,019	1,715	1,650	18.4%	2.0%	3.9%	9.9%

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Consolidation adjustments	(19)	(1)	-	-	1	na	na	na	na
Total after consolidation	2,482	2,960	3,019	1,715	1,652	19.3%	2.0%	3.8%	10.3%

* Others relate to NCBC

Source: Consolidated audited financial statements and NCB Management information

Fee income from banking services represents fees paid by customers and relates to both on-balance sheet (mainly administrative fees on personal loans and annual credit card fees), and off-balance sheet financing (letters of credit ("LCs") and letters of guarantee ("**LGs**")) and offered by NCB and TFKB.

The majority of the fee income is generated from NCB, averaging 63.2% of total fee income over the period commencing 1 January 2011G to 30 June 2014G, followed by TFKB at 17.6%.

6 - 5 - 3 - 1 Net fee income from banking services by nature – NCB

Table 6-8 Net fee income from banking services by nature – NCB

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Fee income:									
Finance and lending	867	1,034	1,206	722	708	19.4%	16.6%	2.0%	18.0%
Trade Finance	-	541	541	263	290	na	0.0%	(9.5%)	0.0%
Credit card	244	233	247	146	121	(4.5%)	5.8%	20.0%	0.5%
Investment management services	79	83	85	(1)	40	5.1%	1.9%	(102.0%)	3.5%
Shares brokerage	25	42	25	0	16	69.5%	(39.7%)	(98.9%)	1.1%
Others	778	59	52	119	14	(92.4%)	(13.1%)	777.8%	(74.2%)
Total	1,992	1,993	2,155	1,248	1,188	0.0%	8.2%	5.0%	4.0%
Fees and commissions expense	(420)	(177)	(178)	(176)	(85)	(57.8%)	0.8%	106.5%	(34.8%)
Fees from banking services, net	1,572	1,816	1,977	1,072	1,103	15.5%	8.9%	(2.8%)	12.1%

Source: NCB Management information

Net fee income represents income streams from banking services that are not special commission in nature. Fee income increased at a CAGR of 12.1% over the period commencing 1 January 2011G to 31 December 2013G, primarily attributable to the growth of NCB on-balance sheet and off-balance sheet activities.

The majority of fee income arises from finance and lending fees, which represents the administrative fees paid by customers when they take out PF, AL, or RF loans. These administrative fees are one time payments and related to the newly issued loans each year.

Trade finance represents fees earned from credit-related commitments and contingencies, which mainly comprise LCs, guarantees, acceptances and commitments to extend credit, in the period commencing 1 January 2011G to 31 December 2011G, this amount was classified as part of the "others" category, and amounted to 464 million Saudi Riyals.

Credit card fees mainly consist of the annual fees paid by customers to renew their credit cards, whereby, the amount varies by card type. Interchange income and cash advance fees represent the other major credit card fees categories.

Investment management fees represent a revenue split between NCB and NCBC on fees from NCBC's funds. Historically, NCB shared in NCBC's Tadawul shares brokerage fees as well. Starting 1 January 2014G, fee sharing was discontinued, resulting in nil amounts for the period 1 January 2014G to 30 June 2014G.

NCB's fee income from banking services in the period commencing 1 January 2014G to 30 June 2014G decreased by 2.8% as compared to the period commencing 1 January 2013G to 30 June 2013G mainly due to the discontinuation of fee sharing with NCBC and lower trade finance activity in the first half of 2014G as compared to the first half of 2013G.

6 - 5 - 4 Salaries and employee-related expenses

6 - 5 - 4 - 1 Salaries and employee-related expense by entity

Table 6-9 Salaries and employee-related expense by entity

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
NCB KSA	1,746	1,820	2,168	1,157	1,094	4.2%	19.1%	5.7%	11.4%
TFKB	508	541	604	317	304	6.5%	11.6%	4.0%	9.0%
Others*	226	234	233	110	129	3.5%	(0.4%)	(14.4%)	1.5%
Total	2,480	2,595	3,005	1,584	1,528	4.6%	15.8%	3.7%	10.1%

* Other salaries relate to NCBC and REDCO

Source: Consolidated audited financial statements and NCB Management information

Salaries and employee-related benefits increased by a CAGR of 10.1% over the period commencing 1 January 2011G to 31 December 2013G mainly as a result of increases across both NCB and TFKB, while NCBC's personnel costs were stable over the period commencing 1 January 2012G to 31 December 2013G due to a decrease in the number of employees that was offset by redundancy costs. Salaries and employee related costs remained relatively stable between for the period 1 January 2014G to 30 June 2014G and 1 January 2013G to 30 June 2013G, as increases across both NCB and TFKB were offset by a decrease in the other subsidiaries.

The increase in salaries across both NCB and TFKB were mainly due to the expansion in the branch network of both banks.

6 - 5 - 4 - 2 Salaries and employee-related expense by nature – NCB

Table 6-10 Salaries and employee-related expense by nature – NCB

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Basic salary	780	761	830	458	402	(2.4%)	9.1%	14.0%	3.2%
Bonus	276	285	397	189	184	3.3%	39.3%	2.3%	19.9%
Other benefits	690	774	941	511	508	12.2%	21.6%	0.5%	16.8%
Total	1,746	1,820	2,168	1,157	1,094	4.2%	19.1%	5.8%	11.4%

Source: Audited financial statements and NCB Management information

Salaries and employee related expenses are comprised of direct fixed payments made to NCB's full time employees, which mainly consist of basic twelve months' salaries, three additional monthly basic salaries, and housing allowance equalling another three months' basic salary. NCB also offers its employees annual increments to basic salary (these vary from employee to employee).

Basic salaries declined by 2.4% over the period commencing 1 January 2012G to 31 December 2012G mainly due to the payment of a one-time bonus totalling two months' basic salary in 2011G. This caused overall salaries and employee-related expenses to increase by only 4.2% over the period commencing 1 January 2011G to 31 December 2012G, despite salary increments and an overall increase in employees. In 2013G, total salaries and employee related expenses increased by 19.1% as compared to 2012G mainly driven by: (i) an increase in number of employees, (ii) salary increments, and (iii) an increase in the bonus pool as a result of an increase in net income by 20.8% (as compared to a net income increase of 8.3% in 2012G).

NCB's salaries and employee related expenses increased by 5.8% during the period commencing 1 January 2014G to 30 June 2014G as compared to the period commencing 1 January 2013G to 30 June 2013G mainly driven by an increase in number of employees.

6 – 5 – 5 Other general and administrative expenses

6 – 5 – 5 – 1 Other general and administrative expenses by entity

Table 6-11 Other general and administrative expenses by entity

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
NCB KSA	968	1,163	1,150	538	504	20.1%	(1.1%)	2.5%	9.0%
TFKB	167	225	280	159	61	34.7%	24.4%	35.9%	29.5%
Others*	125	138	125	39	137	10.4%	(9.4%)	(34.8%)	0.0%
Total	1,260	1,526	1,555	736	702	21.1%	1.9%	4.9%	11.1%

* Other expenses relate to NCBC and REDCO

Source: Consolidated audited financial statements and NCB Management information

General and administrative expenses represent all costs not covered under personnel nor premises related expenses. General and administrative expenses are mainly contributed from NCB.

Other general and administrative expenses mainly consists of outsourced services, computer and communication related expenses, and consulting fees. NCB's general and administrative expenses went up in 2012G by 20.1% mainly driven by the fees related to IT consulting and implementation projects. In 2013G, despite the phasing out of the IT consulting project, general and administrative only decreased by 1.1% mainly due to an increase in outsourced services costs by 56 million Saudi Riyals.

6 – 5 – 5 – 2 Other general and administrative expenses by nature – NCB

Table 6-12 Other general and administrative expenses by nature – NCB

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-13 Mgt.	YTD-Jun-14 Audited	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Outsourced services	236	266	322	139	154	12.7%	21.1%	11.0%	16.8%
Communications	190	215	227	69	27	13.2%	5.6%	(60.9%)	9.3%
Computer related expenses	141	146	196	118	222	3.5%	34.2%	87.7%	17.9%

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-13 Mgt.	YTD-Jun-14 Audited	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
Consulting fees	147	244	172	18	13	66.0%	(29.5%)	(29.5%)	8.2%
Marketing expenses	78	87	67	24	38	11.5%	(23.0%)	56.1%	(7.3%)
Other expenses	176	205	166	157	85	16.5%	(19.0%)	(45.6%)	(2.9%)
Total	968	1,163	1,150	525	538	20.1%	(1.1%)	2.5%	9.0%

Source: Consolidated audited financial statements and NCB Management information

Outsourced services represent the biggest portion of NCB's other general and administrative expenses. Those costs encompass miscellaneous services (call centres, collection agencies, and secretarial services) plus other services. Those costs have grown successively year-on-year in line with NCB's overall expansion.

Communication expenses are mainly comprised of phone, leased line, and swift expenses and have grown at a CAGR of 9.3% in line with the ATM and branches network expansion.

Computer related expenses mainly consist of software and hardware maintenance expenses, such as software licensing, data warehousing, IT security and firewalls.

Consulting fees mainly consist of IT related consultancy fees. Those expenses fluctuate depending on the extent of NCB's requirements for consultants as well as project duration. Professional fees fluctuated mainly due to an IT-related consultancy project that commenced in 2012G and ended on 2013G.

NCB's other general and administrative expenses increased by 2.5% during the period commencing 1 January 2014G to 30 June 2014G as compared to the period commencing 1 January 2013G to 30 June 2013G, as decreases in communications, consulting and other expenses were offset by an increase in outsourced services and marketing expenses.

6 – 5 – 6 Impairment charge for credit losses

6 – 5 – 6 – 1 Impairment charge for credit losses by entity

Table 6-13 Impairment charge for credit losses by entity

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.	YOY '11-'12	YOY '12-'13	YOY 'H113-'H114	CAGR '11-'13
NCB KSA	813	1,089	558	9	260	33.9%	(48.8%)	(96.6%)	(17.2%)
TFKB	184	394	243	102	173	114.1%	(38.3%)	(41.0%)	14.9%
Total before consolidation adjustments	997	1,483	801	111	432	48.7%	(46.0%)	(74.4%)	(10.4%)
Consolidation adjustments	36	(47)	(6)	3	(16)	na	na	na	na
Total after consolidation	1,033	1,436	795	114	416	39.0%	(44.6%)	(72.7%)	(12.3%)

Source: Consolidated audited financial statements and NCB Management information

The net impairment charge for loans recorded in the income statement represents additional provisions for direct and indirect facilities, minus recoveries for amounts previously provided for. Between 1 January 2011G and 31 December 2012G, the impairment charge went up by 39.0% mainly due to NCB's institutional banking division booking a 550 million Saudi Riyals provision in 2012G, and TFKB more than doubling its impairment charge.

In 2013G, the impairment charged decreased by 44.6%, a drop driven by both NCB and TKFB. NCB's impairment charge dropped from 1,089 million Saudi Riyals in 2012G to 558 million Saudi Riyals in 2013G due to (i) a decrease in general provisions (424 million Saudi Riyals in 2012G as compared to 41 million Saudi Riyals in 2013G) as there was no major change in customer risk ratings, and (ii) drop in specific provisions. TFKB's impairment charge decreased as well.

The impairment charge for credit losses for the period 1 January 2014G to 30 June 2014G decreased by 72.7% compared to the period beginning on 1 January 2013G to 30 June 2013G, mainly due to lower provisions booked by NCB (260 million Saudi Riyals for the period 1 January 2013G to 30 June 2013G as compared to 9 million Saudi Riyals for the period 1 January 2014G to 30 June 2014G).

6 – 5 – 7 Other income statement components

Investments held at FVIS include all hedge fund investments managed by NCB, directly or indirectly, and whose performance is evaluated on a fair value basis. Income and losses from FVIS investments includes all realized and unrealized fair value changes and varies from year-to-year based on the funds' performance.

Trading income has been almost evenly split over the period into: (i) changes in the fair value of derivatives that are held for trading purposes, and (ii) foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies.

Dividend income represents dividends received from NCB's equity portfolio. The portfolio has remained relatively stable over the period, resulting in a steady dividend stream. The increase in 2012G is mainly due to the addition of one investment in that year.

Other operating income increased in 2013G as compared to previous years mainly due to a large payment from the REDF.

Rent and premises-related expenses consist of all branch and ATM-related expenses, such as rent, utilities, and security services. Given the expansion of both NCB and TFKB's branch and ATM networks over the period commencing 1 January 2011G to 31 December 2013G, rent and premises-related expenses have increased by a CAGR of 13.1%. Between 30 June 2013G and 30 June 2014G, the branch network grew at 3.3%.

Other operating income item includes operating income from auto insurance contracts, income from the REDF, gain on sale of repossessed automobiles, and prior year adjustments, among other items.

6 – 6 Consolidated Balance Sheet

Table 6-14 Consolidated balance sheet

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Cash and balances with SAMA	24,702	40,298	39,090	32,081	31,417
Due from banks and financial institutions	11,561	16,402	14,831	20,919	12,715
Investment securities	120,489	116,428	125,294	163,635	129,358
Loans and advances	135,289	163,461	187,687	206,195	178,208
Investments in associates	839	833	829	408	831
Other real estate, net	249	219	216	861	216
Property and equipment, net	2,317	2,550	2,762	3,438	2,484

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Goodwill and other intangible assets, net	1,231	1,172	873	818	1,023
Other assets	4,521	3,897	5,698	7,175	6,544
Total assets	301,198	345,260	377,280	435,530	362,796
Due to banks and financial institutions	19,940	25,574	24,725	26,198	24,249
Customers' deposits	239,458	273,530	300,602	345,597	288,045
Debt securities issued	-	-	1,511	9,502	1,511
Other liabilities	6,215	6,752	7,906	7,879	7,369
Total liabilities	265,613	305,856	334,744	389,176	321,174
Share capital	15,000	15,000	15,000	20,000	15,000
Treasury shares	(177)	(177)	(177)	(191)	(177)
Statutory reserve	12,105	13,624	15,103	15,103	13,624
Other reserves	1,918	1,857	1,354	1,712	1,482
Retained earnings	5,227	7,051	9,699	7,976	11,382
Proposed dividend	1,496	1,496	1,646	1,596	-
Foreign currency translation reserve	(1,404)	(1,147)	(1,691)	(1,589)	(1,399)
Total equity attributable to equity holders of the Group	34,165	37,704	40,934	44,607	39,912
Non-controlling interest	1,420	1,700	1,602	1,747	1,710
Total equity	35,585	39,404	42,536	46,354	41,622
Total liabilities and shareholders' equity	301,198	345,260	377,280	435,530	362,796
KPIs					
Special commission earning assets to total assets	88.7%	89.4%	88.1%	87.8%	87.6
Special commission bearing liabilities to total liabilities	31.8%	30.7%	23.9%	26.3%	27.4
Loans to deposits	56.5%	59.8%	62.4%	59.7%	61.9
Growth in loans and advances	7.7%	20.8%	14.8%	9.9%	9.0
Growth in deposits books	4.5%	14.2%	9.9%	15.0%	5.3

Source: Consolidated audited financial statements and NCB Management information

This section summarizes the main historical financial position trends at a consolidated group level, where all key components for the three years ended 31 December 2011G, 2012G and 2013G and the periods ending 30 June 2013G and 30 June 2014G are discussed in detail below.

6 - 6 - 1 Cash and balances with SAMA

6 - 6 - 1 - 1 Cash and balances with SAMA by entity

Table 6-15 Cash and balances with SAMA by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	24,550	40,085	38,825	31,546	31,225
TFKB	152	213	265	535	192
Total	24,702	40,298	39,090	32,081	31,417

Source: Consolidated audited financial statements and NCB Management information

At 30 June 2014G, cash and balances with SAMA were primarily attributable to NCB.

NCB (31,546 million Saudi Riyals): these mainly relate to statutory deposits (19,892 million Saudi Riyals), money market placements (5,892 million Saudi Riyals) and cash on hand balances (5,762 million Saudi Riyals) which are detailed further in the following section.

6 - 6 - 1 - 2 Cash and balances with SAMA by nature – NCB

Table 6-16 Cash and balances with SAMA - NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Cash in hand	3,095	3,517	4,840	5,762	4,256
Balances with SAMA:					
Money market placements	7,658	22,017	17,181	5,892	10,111
Statutory deposits	13,797	14,550	16,804	19,892	16,858
Total	24,550	40,085	38,825	31,546	31,225

Source: Audited financial statements and NCB Management information

NCB cash and balances with SAMA include: (i) cash in hand which represents cash held in NCB's various branches, vaults and ATM's, (ii) money market placements which are overnight reverse repurchase agreements with SAMA on Saudi Government securities (i.e. SAMA-bills or SGDBs) or quasi-Government securities (i.e. Sukuk issued by state owned enterprises), and (iii) statutory deposits which are amounts required to be held with SAMA, and are not available to finance NCB day-to-day operations. In accordance with Article 7 of the Banking Control Law and regulations, this balance should represent 7% of total demand deposits and 4% of savings, time deposits, LGs and LCs and non-resident Saudi Riyal denominated due to bank balances.

Cash and balances with SAMA increased by 15,535 million Saudi Riyals from 24,550 million Saudi Riyals at 31 December 2011G to 40,085 million Saudi Riyals at 31 December 2012G driven by the increase in money market placements by 14,359 million Saudi Riyals over the same period from 7,658 million Saudi Riyals at 31 December 2011G to 22,017 million Saudi Riyals at 31 December 2012G. The increase in money market placements was due to higher levels of liquidity being generated from the Group's deposit acquisition strategy.

Cash and balances with SAMA decreased by 1,260 million Saudi Riyals from 40,085 million Saudi Riyals at 31 December 2012G to 38,825 million Saudi Riyals at 31 December 2013G mainly due to a decrease in money market placements by 4,836 million Saudi Riyals from 22,017 million Saudi Riyals at 31 December 2012G to 17,181 million Saudi Riyals at 31 December 2013G. The decrease in money market placements was due to a redeployment of these amounts to fund the growth in the investment and loan portfolios.

Cash and balances with SAMA decreased by 7,279 million Saudi Riyals from 38,825 million Saudi Riyals at 31 December 2013G to 31,546 million Saudi Riyals at 30 June 2014G mainly due to a decrease in money market placements by 11,289 million Saudi Riyals from 17,181 million Saudi Riyals at 31 December 2013G to 5,892 million Saudi Riyals at 30 June 2014G. The decrease in money market placements was due to the reallocation of a portion of the balance to longer duration SAMA bills and other investments.

6 - 6 - 2 Due from Banks and other financial institutions

6 - 6 - 2 - 1 Due from Banks and other financial institutions by entity

Table 6-17 Due from Banks and other financial institutions by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
TFKB	3,198	6,118	7,773	10,606	7,294
NCB	8,310	10,367	6,948	10,259	5,487
Others*	53	69	127	113	64
Total before consolidation adjustments	11,561	16,554	14,848	20,978	12,845
Consolidation adjustments	-	(152)	(17)	(59)	(130)
Total after consolidation	11,561	16,402	14,831	20,919	12,715

* Others relate to NCBC and REDCO

Source: Consolidated audited financial statements and NCB Management information

At 30 June 2014G, due from banks and other financial institutions were primarily attributable to TFKB and NCB:

- TFKB (10,606 million Saudi Riyals): these mainly relate to balances with the central bank of Turkey; and
- NCB (10,259 million Saudi Riyals): these mainly relate to money market placements (8,460 million Saudi Riyals) and current accounts (1,799 million Saudi Riyals) with banks and other financial institutions.

6 - 6 - 2 - 2 Due from Banks and other financial institutions by nature – TFKB

Table 6-18 Due from Banks and other financial institutions - TFKB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Current accounts	1,895	2,536	2,669	4,857	2,734
Money market placements	1,303	3,582	5,104	5,749	4,560
Total	3,198	6,118	7,773	10,606	7,294

Source: Audited financial statements and NCB Management information

TFKB's due from banks and other financial institutions balance comprised of current accounts which represent non-interest bearing placements with banks and money market placement which represent short-term financing provided to local Turkish, and International Banks for money transfer purposes as well as reserve requirement amount at the Central Bank of Turkey.

TFKB's due from banks and other financial institutions balance increased by 2,920 million Saudi Riyals from 3,198 million Saudi Riyals at 31 December 2011G to 6,118 million Saudi Riyals at 31 December 2012G driven partly by an increase in money market placements by 2,279 million Saudi Riyals from 1,303 million Saudi Riyals at 31 December 2011G to 3,582 million Saudi Riyals at 31 December 2012G and partly by current accounts which increased by 641 million Saudi Riyals from 1,895 million Saudi Riyals at 31 December 2011G to 2,536 million Saudi Riyals at 31 December 2012G. The large increase in CBRT reserve requirement was a result of the growing funds collected.

TFKB's due from banks and other financial institutions balance increased by 1,655 million Saudi Riyals from 6,118 million Saudi Riyals at 31 December 2012G to 7,773 million Saudi Riyals at 31 December 2013G driven primarily by an increase in money market placements by 1,522 million Saudi Riyals from 3,582 million Saudi Riyals at 31 December 2012G to 5,104 million Saudi Riyals at 31 December 2013G. The percentage increase in due from Banks and other financial institutions was in line with the increase in total assets over the same period.

TFKB's due from banks and other financial institutions balance institutions increased by 2,833 million Saudi Riyals, from 7,773 million Saudi Riyals at 31 December 2013G to 10,606 million Saudi Riyals at 30 June 2014G driven primarily by an increase in current accounts by 2,188 million Saudi Riyals from 2,669 million Saudi Riyals at 31 December 2013G to 4,857 million Saudi Riyals at 30 June 2014G. The percentage increase in due from Banks and other financial institutions was in line with the increase in total assets over the same period.

6 - 6 - 2 - 3 Due from Banks and other financial institutions by nature – NCB

Table 6-19 Due from Banks and other financial institutions - NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Current accounts	1,014	1,284	1,690	1,799	1,096
Money market placements	7,296	9,083	5,258	8,460	4,391
Total	8,310	10,367	6,948	10,259	5,487

Source: Audited financial statements and NCB Management information

NCB due from banks and other financial institutions balances were comprised of: (i) current accounts which represent non-interest bearing placements with banks; and (ii) money market placements which represent short-term financing provided to local Saudi, GCC and international banks.

The balance fluctuated over the period under analysis, largely driven by the fluctuations in money market placements over the same period. The short duration and constant change in the demand for such financing by market participants was the key driver behind this fluctuation.

Nevertheless the overall increase in the balance from 8,310 million Saudi Riyals at 31 December 2011G to 10,259 million Saudi Riyals at 30 June 2014G was due to excess liquidity generated from a successful deposit acquisition strategy being placed with other banks, given the higher yields being offered by those banks compared to placements with SAMA.

6 - 6 - 3 Investments securities

6 - 6 - 3 - 1 Investments securities by entity

Table 6-20 Investment securities by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	118,518	114,298	122,435	159,690	126,991
TFKB	1,195	1,384	2,444	3,413	2,021
Others*	795	829	879	996	794
Total before consolidation adjustments	120,508	116,511	125,758	164,099	129,806

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Consolidation adjustments	(19)	(83)	(464)	(464)	(448)
Total after consolidation	120,489	116,428	125,294	163,635	129,358

* Others relate to NCBC

Source: Consolidated audited financial statements and NCB Management information

6 - 6 - 3 - 2 Investments securities by product type – NCB

Table 6-21 Investment securities by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Fixed rate securities	103,602	97,341	97,996	124,770	103,592
Floating rate securities	9,046	11,910	19,052	27,700	17,966
Equity instruments	3,770	3,829	4,428	6,089	4,437
Hedge funds and externally managed portfolio	2,934	1,968	1,956	1,982	1,916
Others	215	253	-	-	-
Investments, gross	119,567	115,301	123,432	160,541	127,911
Provision for impairment	(1,049)	(1,003)	(997)	(851)	(920)
Investments, net	118,518	114,298	122,435	159,690	126,991

Source: Audited financial statements and NCB Management information

The investment portfolio decreased by 4,220 million Saudi Riyals from 118,518 million Saudi Riyals at 31 December 2011G to 114,298 million Saudi Riyals at 31 December 2012G mainly driven by a decrease in fixed rate securities by 6,261 million Saudi Riyals from 103,602 million Saudi Riyals at 31 December 2011G to 97,341 million Saudi Riyals at 31 December 2012G due to the redeployment of funds (mostly maturing short duration SAMA bills) from the investment portfolio to the growing loan portfolio.

The investment portfolio increased by SAR 8,137 million from 114,298 million Saudi Riyals at 31 December 2012G to 122,435 million Saudi Riyals at 31 December 2013G mainly driven by the increase in floating rate securities by 7,142 million Saudi Riyals from 11,910 million Saudi Riyals at 31 December 2012G to 19,052 million Saudi Riyals at 31 December 2013G due to redeployment of funds to Government and quasi Government investments outside the Kingdom in line with the increase in the respective limits for these asset classes.

The investment portfolio increased by 37,255 million Saudi Riyals from 122,435 million Saudi Riyals at 31 December 2013G to 159,690 million Saudi Riyals at 30 June 2014G mainly driven by the increase in fixed and floating rate securities by 26,774 million Saudi Riyals and 8,648 million Saudi Riyals respectively due to the increased liquidity surplus resulting from NCB's deposit acquisition strategy and the sukuk issuance of 5,000 million Saudi Riyals during the first quarter of the 2014G financial year. The increase in fixed rate investments is attributable to investment of excess liquidity in Saudi government bonds (SAMA bonds in particular), in addition to bonds issued by the governments in MENA and emerging markets.

6 - 6 - 3 - 3 Investments securities by accounting designation - NCB

Table 6-22 Investments securities by accounting designation - NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Investments at amortised cost (IAC)	82,438	85,265	94,221	131,571	98,694
Available for sale (AFS)	30,979	25,656	25,228	25,575	25,348
Fair value through Income Statement (FVIS)	2,934	1,968	1,956	1,982	1,916
Held to Maturity (HTM)	2,167	1,409	1,030	562	1,033
Investments, net	118,518	114,298	122,435	159,690	126,991

Source: Audited financial statements and NCB Management information

Investments at amortised cost increased by 49,133 million Saudi Riyals from 82,438 million Saudi Riyals at 31 December 2011G to 131,571 million Saudi Riyals at 30 June 2014G mainly driven by an increase in Saudi Government securities by 8,559 million Saudi Riyals, MENA securities by 21,943 million Saudi Riyals, emerging market securities by 7,665 million Saudi Riyals and US Treasuries and agency securities by 8,792 million Saudi Riyals over the same period.

Available for Sale ("**AFS**") investment's balance decreased by 5,404 million Saudi Riyals from 30,979 million Saudi Riyals at 31 December 2011G to 25,575 million Saudi Riyals at 30 June 2014G mainly due to the sale of circa 5,900 million Saudi Riyals of European securities during 2012G in order to harvest the capital gains on these securities and as pre-emptive measure against the weakening economic landscape. The decrease was also partly attributed to the unwinding of the Structured Credit portfolio which decreased by circa 1,100 million Saudi Riyals over the same period. The decrease in AFS securities was however, partly offset by an increase in US Treasury and Agency securities.

Investments classified as fair value through income statement ("**FVIS**") of 1,982 million Saudi Riyals at 30 June 2014G include externally managed portfolios. The decrease in the balance between 31 December 2011G and 31 December 2013G by 978 million Saudi Riyals was due to the maturity and redemption of a portion of the hedge fund portfolio. Funds were not recycled to achieve the exposure level set by ALCO for this asset class.

Held to Maturity (HTM) investments decreased by 1,605 million Saudi Riyals from 2,167 million Saudi Riyals at 31 December 2011G to 562 million Saudi Riyals at 30 June 2014G due to the maturity of certain US Treasury and Agency securities classified as HTM.

6 - 6 - 3 - 4 Group Investments securities by geography

Table 6-23 Group investments securities by geography

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
KSA	58,021	49,832	48,187	71,503	54,107
GCC and the Middle East	17,203	18,902	24,768	34,105	24,089
Europe	13,309	4,576	4,753	6,510	3,475
Turkey	1,195	1,760	2,444	3,413	2,767
Other countries	30,761	41,358	45,142	48,104	44,920
Total	120,489	116,428	125,294	163,635	129,358

Source: Audited financial statements and NCB Management information

Given the recent volatility in international markets, the concentration of the Group's securities in local regional markets proved to be a viable strategy resulting in a higher level of stability in investment balances and income over the period under analysis.

The Group's total investment portfolio decreased by 4,061 million Saudi Riyals, from 120,489 million Saudi Riyals at 31 December 2011G to 116,428 million Saudi Riyals at 31 December 2012G mainly due to a decrease in exposures in the Kingdom by 8,189 million Saudi Riyals and the decrease in European exposures by 8,733 million Saudi Riyals. The decrease in exposure in the Kingdom resulted mainly due to the redeployment of funds from maturing Government investments to the growing loan portfolio while the decrease in the European exposure was mainly due to the sale of European securities to harvest capital gains and as a pre-emptive measure against the weakening economic landscape. The decrease in the investment portfolio was however, partly offset by the increase in investments in other countries by 10,597 million Saudi Riyals over the same period. The increase in other countries was primarily driven by the increase in US Treasury and Agency securities.

The Group's total investment portfolio increased by 8,866 million Saudi Riyals from 116,428 million Saudi Riyals at 31 December 2012G to 125,294 million Saudi Riyals at 31 December 2013G mainly due to an increase in GCC and Middle East exposures by 5,866 million Saudi Riyals and a further increase in other countries' exposure (mainly US) by 3,784 million Saudi Riyals.

The Group's total investment portfolio increased by 38,341 million Saudi Riyals from 125,294 million Saudi Riyals at 31 December 2013G to 163,635 million Saudi Riyals at 30 June 2014G mainly due to an increase in KSA exposure by 23,316 million Saudi Riyals, GCC and Middle East exposures by 9,337 million Saudi Riyals and a further increase in other countries exposure (mainly US) by 2,962 million Saudi Riyals.

The increase in investments in the Kingdom between 31 December 2013G and 30 June 2014G is attributable to the availability of excess liquidity as a result of an increase in government, quasi-government, and high net worth deposits, which were investment in SAMA bonds. Similarly, the increase in investments into the GCC and the Middle Eastern during the same period is in accordance with NCB's strategy that aims to increase profitability, given these securities' high yield and related attributes.

6 – 6 – 4 Loans and advances

6 – 6 – 4 – 1 Loans and advances by entity

Table 6-24 Loans and advances by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	115,048	136,452	155,773	170,646	148,051
TFKB	20,226	26,993	31,899	35,538	30,141
Others*	15	16	15	11	16
Total after consolidation adjustments	135,289	163,461	187,687	206,195	178,208

* Others relate to NCBC

Source: Consolidated audited financial statements and NCB Management information

NCB net loan portfolio amounted to 155,773 million Saudi Riyals at 31 December 2013G and accounted for approximately 83.0% of the Group's portfolio, whereas, TFKB net loan portfolio amounted to 31,899 million Saudi Riyals at 31 December 2013G and accounted for approximately 17.0% of the Group's portfolio.

The Group's loan mix between NCB and TFKB has varied, with TFKB's contribution changing from approximately 15.0% at 31 December 2011G to approximately 17.0% at 31 December 2013G highlighting the higher CAGR 31 December 2011G - 31 December 2013G for Turkey of approximately 25.6% as compared to NCB's CAGR of approximately 16.4%.

NCB net loan portfolio witnessed a 9.5% growth from 31 December 2013G to 30 June 2014G and amounted to 170,646 million Saudi Riyals, whereas, TFKB net loan portfolio grew by 11.4% over the same period and reached 35,538 million Saudi Riyals. The Group's loans mix between NCB and TFKB remained relatively stable during the first half of 2014G.

6 - 6 - 4 - 2 Loans and advances by business segment - NCB

Table 6-25 Loans and advances by business segment – NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Corporate Banking	74,871	89,079	97,459	104,542	92,852
Retail Banking	38,293	47,278	58,233	66,018	55,115
Other*	1,884	95	81	86	84
Net Loans and Advances	115,048	136,452	155,773	170,646	148,051

* Others relate to high net worth customers loans (only in 2011) and general corporate loans (staff advances in the form of advances on salaries)

Source: Audited financial statements and NCB Management information

During the period between 31 December 2011G and 31 December 2013G, NCB's loan portfolio witnessed a substantial increase by 40,725 million Saudi Riyals, representing a CAGR of approximately 16.4%. The growth was driven by both the CBG and RBG which increased by 22,588 million Saudi Riyals (CAGR of approximately 14.1%) and 19,940 million Saudi Riyals (CAGR of approximately 23.3%), respectively.

At 31 December 2013G, loans and advances of 155,773 million Saudi Riyals were comprised of CBG loans of 97,459 million Saudi Riyals (approximately 62.6% of net loans and advances), RBG loans of 58,233 million Saudi Riyals (approximately 37.4% of net loans and advances) and other loans of 82 million Saudi Riyals (primarily relating to general corporate (staff advances in the form of advances on salaries).

The distribution mix in NCB loans changed slightly between 31 December 2011G and 31 December 2013G driven by robust growth in the RBG portfolio. At 31 December 2013G, RBG loans represented approximately 37.4% of the total portfolio, as compared to approximately 33.3% at 31 December 2011G. CBG loans represented approximately 62.6% of the total portfolio at 31 December 2013G, as compared to approximately 65.1% at 31 December 2011G. The change in mix has been driven by NCB's strategy to focus on growing its RBG business by focusing on PF and expanding the RF and AL portfolios, whilst continuing to grow the corporate portfolio in parallel. This was facilitated by the improvement in footprint (branches and ATMs) along with an increase in appetite for the various retail products.

The significant increase in loans and advances resulted in an increase in the loans to deposits ratio from approximately 52.2% at 31 December 2011G to approximately 56.9% at 31 December 2013G.

A large portion of NCB loans were *Shari'ah*-compliant lending products between 31 December 2011G and 31 December 2013G. At 31 December 2013G, *Shari'ah*-compliant products represented approximately 59.7% of the portfolio, while conventional products represented approximately 40.3%. This is consistent with NCB's desire to shift towards a *Shari'ah*-compliant suite of products.

NCB loan portfolio maturity trend leaned toward longer term maturity with 42.5% of the loan portfolio expected to mature in more than one year from 31 December 2013G, compared to 35.4% and 36.4% at 31 December 2012G and 2011G, respectively. The change in the maturity profile of the loans and advances is in line with the increase in products with longer term maturity, such as Project Finance, mainly in the Specialised Finance Division ("**SFD**") and the Institutional Banking Division ("**IBD**") within the CBG, in addition to medium and long term RBG products such as PF, RF and AL.

The loan portfolio is concentrated locally with approximately 98.1% of the loans exposure located in the Kingdom at 31 December 2013G. There was minimal exposure to lending in Europe and the Middle East (including GCC) of 0.9% and 0.5% of the portfolio at 31 December 2013G, respectively. NCB's strategy to focus on the local market, is in line with its geographical exposure. The minimal Middle East exposure is limited to Government related projects in Qatar, Kuwait, UAE, and Oman.

As 31 December 2013G, NCB loan portfolio is well diversified across industries. Consumer loans and credit cards represented 37.0% of the total portfolio, while the remaining portfolio was exposed to the commerce sector (including wholesale trade, retail trade, real estate and instalment purchase) (16.4% of total loans), manufacturing (13.7%), services (9.6%) and transportation and communication (7.5%), building and construction (6.1%) and utilities (6.0%).

NCB had 25,700 million Saudi Riyals of total exposure (both funded and non-funded) to the construction industry, 12,700 million Saudi Riyals total exposure to the construction materials industry, in addition to 8,500 million Saudi Riyals to the automobile industry. NCB has a limit to its exposure to any single economic sector. According to an internal risk limit, exposure to a single industry should not exceed 30.0% of the total exposure.

At 31 December 2013G the fair value of collateral amounted to 31,577 million Saudi Riyals compared to 28,675 million Saudi Riyals at 31 December 2012G, in line with the increase in loans and advances. The collateral coverage to total gross loans amounted to 19.7% and 20.1% at 31 December 2013G and 31 December 2012G respectively.

The coverage ratio for past due but not impaired loans amounted to 36.1% at 31 December 2013G compared to 32.1% at 31 December 2012G.

As per NCB's credit policy, collaterals must be evaluated by two independent and approved professional firms. The evaluation should be conducted annually for all classified names and every two years for the performing ones.

CBG collateral coverage amounted to approximately 17.7% at 31 December 2013G. Management explained that this uncollateralised lending practice in corporate is a feature of competition in the market, whereby, rigid collateral requirement for large influential clients increases the risk of losing lending volumes to the competition.

RBG collateral coverage was approximately 23.2% at 31 December 2013G and primarily comprised of real estate and vehicles. PF represented 73.4% of the RBG portfolio at 31 December 2013G and was mostly salary-based lending to individuals primarily in the Government in addition to the private sector. Salary based-lending is backed by payroll /salary assignment, whereby, NCB has authority to directly debit the payroll accounts for repayment instalments upon salary transfer. The salary cannot be transferred to another bank without the written approval from NCB and the exposures are covered by life cover Takaful.

During the period between 31 December 2013G and 30 June 2014G, NCB's loan portfolio witnessed a substantial increase by 14,873 million Saudi Riyals, representing a growth of 9.5%. The growth was driven by both the CBG which increased by 7,083 million Saudi Riyals (growth of approximately 7.3%) and the RBG which increased by 7,785 million Saudi Riyals (growth of approximately 13.4%).

At 30 June 2014G, loans and advances of 170,646 million Saudi Riyals were comprised of CBG loans of 104,542 million Saudi Riyals (approximately 61.3% of net loans and advances), RBG loans of 66,018 million Saudi Riyals (approximately 38.7% of net loans and advances) and other loans of 86 million Saudi Riyals (primarily relating to general corporate (staff advances).

A. Corporate Banking Group – NCB

Table 6-26 Corporate banking group - NCB

SAR in millions	31-Dec-11G	31-Dec-12G	31-Dec-13G	30-Jun-14G	30-Jun-13G
Specialised Finance Division ("SFD")	5	5	41,872	44,399	-
Institutional Banking Division ("IBD")	53,106	59,025	36,468	37,081	63,594
Corporate Banking Division ("CBD")	12,443	16,885	7,195	8,059	16,373
Financial Institutions ("FI")	2,927	5,158	4,145	7,628	3,508
SME Banking Division ("SME")	4,267	6,352	6,318	7,216	7,668

SAR in millions	31-Dec-11G	31-Dec-12G	31-Dec-13G	30-Jun-14G	30-Jun-13G
Financial Restructuring Department ("FRD")	2,123	1,654	1,461	159	1,709
Net Corporate Banking loans	74,871	89,079	97,459	104,542	92,852
% of net corporate banking loans					
SFD	0.0%	0.0%	43.0%	42.5%	0.0%
IBD	70.9%	66.2%	37.4%	35.5%	68.5%
CBD	16.7%	19.0%	7.3%	7.7%	17.6%
FI	3.9%	5.8%	4.3%	7.3%	3.8%
SME	5.7%	7.1%	6.5%	6.8%	8.3%
FRD	2.8%	1.9%	1.5%	0.2%	1.8%

Source: NCB Management information

In December 2013G, the CBG introduced the Specialised Finance Division which was formally established by carving out clients from the Institutional Banking Division. Historically, SFD loans were managed under the Specialised Finance Group by a specialised team of transactors and risk officers; however, these were internally reported under IBD.

The new segmentation of existing divisions involved part of the Corporate Banking Division being reclassified into IBD while part of the Small and Medium Entities Division was reclassified into CBD. In 2012G, the Middle Enterprises division was reclassified into the SME division upon transfer of the Small Enterprises division's exposure from the RBG into the CBG. Accordingly, the inter-division 2012G versus 2013G figures are not comparable.

1. Specialised Finance Division

The SFD is focused on granting non-conventional loans to NCB clients such as project finance loans, assets backed loans and syndicated loans in addition to the management of relationships with major customers.

At 31 December 2013G SFD loans of 41,872 million Saudi Riyals were all classified as standard loans with none being classified as a NPL.

The internal credit rating of the SFD portfolio at 31 December 2013G reveals that all of the exposure was of good credit quality. The first rating classification (AAA to BB- Level 1) dominated the whole portfolio and represented 96.3% of it as at 31 December 2013G, and loans in the second and third rating classification (B+ to B- Level 2 and 3) represented 3.7% of SFD portfolio.

At 30 June 2014G, SFD loans amounted to 44,399 million Saudi Riyals, highlighting a 6% increase from the 31 December 2013G outstanding balance. The credit rating of the SFD portfolio at 31 December 2013G reveals that all of the exposure was of good credit quality. The first rating classification (AAA to BB- Level 1) dominated the whole portfolio and represented 90.6% of it.

It should be noted that these classifications are driven by internal rating system.

2. Institutional Banking Division

The IBD includes loans and facilities that generally amount to 500 million Saudi Riyals or more, for companies that generate annual revenue in excess of 600 million Saudi Riyals.

IBD loans increased at 31 December 2012G to 59,025 million Saudi Riyals compared to 53,106 million Saudi Riyals at 31 December 2011G. At 31 December 2013G, IBD loans decreased significantly to 36,468 million Saudi

Riyals following the establishment of the new Specialised Finance Division, whereby, a portion of the IBD loans were reclassified into SFD.

Over the period commencing 1 January 2011G to 31 December 2013G IBD loans were largely conventional in nature. At 31 December 2013G, conventional loans represented 59.3% of NCB's total portfolio while *Shari'ah*-compliant loans and overdrafts represented 38.1% and 2.6%, respectively. At 31 December 2012G, the product mix was different, whereby, conventional loans represented 70.0% of total loans while *Shari'ah*-compliant loans represented 28% of total loans. The decrease was due to the reclassification of a large portion of conventional loans to SFD.

At 31 December 2013G, IBD loans of 36,468 million Saudi Riyals included conventional loans of 21,953 million Saudi Riyals (31 December 2012G - 42,288 million) and *Shari'ah* compliant loans of 13,890 million Saudi Riyals (31 December 2012G – 16,915 million). Conventional loans were primarily comprised of long term loans (14,085 million Saudi Riyals) and short term loans (3,933 million Saudi Riyals) in addition to other types of conventional loans (3,935 million Saudi Riyals), whereas *Shari'ah*-compliant loans were mostly Tawarruq loans (12,970 million Saudi Riyals) in addition to other types of loans (920 million Saudi Riyals).

At 30 June 2014G, IBD loans amounted to 37,081 million Saudi Riyals, highlighting a 1.7% increase from the 31 December 2013G outstanding balance. The Company has been very selective in acquiring new clients within this division as the prime focus was on cross selling while growing SME and CBD.

3. Corporate Banking Division

The CBD includes loans and facilities granted to companies that generate annual revenue between 95 million Saudi Riyals and 500 million Saudi Riyals and for facilities that range in values between 100 million Saudi Riyals and 600 million Saudi Riyals.

CBD loans increased significantly at 31 December 2012G to 16,885 million Saudi Riyals compared to 12,443 million Saudi Riyals at 31 December 2011G. However, at 31 December 2013G, CBD loans decreased and amounted to 7,195 million Saudi Riyals due the reclassification of a portion of those loans to the IBD.

Over the period commencing 1 January 2011G to 31 December 2013G the CBD primarily comprised of *Shari'ah*-compliant loans, mainly *Tayseer* (4,094 million Saudi Riyals). At 31 December 2013G, *Shari'ah*-compliant loans represented 72.0% of the gross portfolio while conventional loans represented 26.8% (with the remaining 1.2%. as overdrafts). At 31 December 2012G and 2011G, the weight of *Shari'ah*-compliant loans was significantly different at 54.8% with conventional loans representing 40.0% and overdrafts representing 5.2%. The decrease was due to the reclassification of a large portion of conventional loans to IBD.

At 30 June 2014G, CBD loans amounted to 8,059 million Saudi Riyals, highlighting a 12.0% increase from the 31 December 2013G outstanding balance. This substantial increase was the result of the Company's strategy focused on growing this highly profitable division.

4. Financial institutions

Financial Institutions Department ("**FI**") is the correspondent banking department of NCB, and works closely with the Treasury department. Credit relationships are established by the FI department, and the Treasury department handles these accounts on daily basis.

FI and International loans increased by 84.0% from 4,145 million Saudi Riyals to 7,628 million Saudi Riyals between 31 December 2013G and 30 June 2014G. FI and International loans mostly represented LC post financing related to oil shipments, which are mostly comprised of short term facilities. The increase in FI loans during the first half of 2014G was the result of more recurring activity within that domain.

5. Small & Medium Enterprises Banking Division

The SME Banking Division includes loans and facilities granted to companies that generate annual revenue of less than 100 million Saudi Riyals and for facilities that range between 1 million Saudi Riyals and 95 million Saudi Riyals.

NCB's SME net loans increased by 2,051 million Saudi Riyals between 31 December 2011G and 31 December 2013G and amounted to 6,318 million Saudi Riyals at 31 December 2013G, despite the reclassification of a portion of SME loans into CBD in December 2013G.

At 31 December 2013G, SME gross loans were mostly comprised of *Shari'ah*-compliant loans of 7,042 million Saudi Riyals and a minimal portion of conventional loans and overdrafts each of 21 million Saudi Riyals.

At 30 June 2014G, SME net loans amounted to 7,216 million Saudi Riyals, highlighting a 14.2% increase from the 31 December 2013G outstanding balance. This substantial increase was the result of the Company's strategy focused on growing this highly profitable division.

6. Financial Restructuring Department

The Financial Restructuring Department ("**FRD**"), including both the Remedial Management Unit and the Restructuring Unit, supports the CBG by managing existing and prospective impaired corporate loans. Therefore the main customers allocated under this department are distressed and have financial and operational difficulties.

FRD net loans decreased slightly between 31 December 2011G and 31 December 2013G from 2,123 million Saudi Riyals to 1,461 million Saudi Riyals, similarly gross loans decreased significantly from 6,190 million Saudi Riyals at 31 December 2011G to 4,127 million Saudi Riyals at 31 December 2013G following the write-offs made to four major clients in 2013G.

Between 31 December 2011G and 31 December 2013G, FRD loans were mainly comprised of conventional loans. At 31 December 2013G, gross FRDs of 4,127 million Saudi Riyals were comprised of conventional loans of 3,134 million Saudi Riyals (75.9%), *Shari'ah*-compliant loans of 931 million Saudi Riyals (22.6%) and overdrafts of 62 million Saudi Riyals (1.5%).

At 30 June 2014G, FRD loans amounted to 159 million Saudi Riyals, highlighting an 89.1% decrease from the 31 December 2013G outstanding balance, following the settlement of one of the Company's top 20 exposures at 31 December 2013G, resulting in the payment of 1,270 million Saudi Riyals upon liquidation of related collateral.

7. Credit quality of Corporate Banking loans and advances – NCB

Table 6-27 Credit quality of corporate banking loans and advances - NCB

SAR in millions	31-Dec-11G	31-Dec-12G	31-Dec-13G	30-Jun-14G	30-Jun-13G
Performing loans	76,056	90,609	98,977	106,060	94,505
Non-performing loans	3,334	3,813	1,717	1,538	2,380
Gross loans	79,390	94,422	100,694	107,598	96,885
General provisions	(1,222)	(1,648)	(1,689)	(1,562)	(1,804)
Specific provisions	(3,297)	(3,695)	(1,546)	(1,494)	(2,229)
Provisions	(4,519)	(5,343)	(3,235)	(3,056)	(4,033)
Total	74,871	89,079	97,459	104,542	92,852
Percentage of restructured loans to performing loans	1.7%	1.9%	0.3%	0.08%	0.3%

Source: NCB Management information

Over the period between 31 December 2011G and 31 December 2013G, performing loans increased from 76,056 million Saudi Riyals to 98,977 million Saudi Riyals and NPLs decreased from 3,334 million Saudi Riyals to 1,717 million Saudi Riyals. The improvement of CBG credit quality is attributable to the increase in loans and advances over the same period and the decrease in NPLs, following the write-offs made primarily to four clients with large exposures, (totalling 1,900 million Saudi Riyals) between 2012G and 2013G. This resulted in the NPL ratio decreasing from 4.2% at 31 December 2011G to 1.7% at 31 December 2013G.

Commencing in March 2013G, NCB initiated a new write-off policy which allows faster write-offs. Under this policy, an account will be fully provided for after one year from NPL classification date and written off within 720 days. It is worth nothing that NCB classifies an account loan as non-performing when payment is past due for more than 90 days.

As a result of the write-offs, the NPL coverage ratio decreased from 98.9% at 31 December 2011G to 90.0% at 31 December 2013G. In addition, the ratio of general provisions to performing loans was 1.7% at 31 December 2013G.

Over the period between 31 December 2013G and 30 June 2014G, performing loans increased from 98,977 million Saudi Riyals to 106,060 million Saudi Riyals and NPLs decreased from 1,717 million Saudi Riyals to 1,538 million Saudi Riyals. The improvement of CBG credit quality, manifested by the decrease in the NPL ratio from 1.7% to 1.4%, over the same period, is attributable to the increase in loans and advances and the decrease in NPLs following the write-offs primarily related to one fully provided for client (181 million Saudi Riyals).

B. Retail Banking Group – NCB

Table 6-28 Retail banking group - NCB

SAR in millions	31-Dec-11G	31-Dec-12G	31-Dec-13G	30-Jun-14G	30-Jun-13G
Personal Finance (“PF”)	30,382	37,097	42,723	45,969	42,755
Residential Finance (“RF”)	1,147	3,456	6,477	8,878	4,860
Auto Lease (“AL”)	3,271	3,846	5,330	6,560	4,435
Private Banking loans (“PB”)	1,326	1,382	1,933	2,592	1,437
Credit Cards (“CC”)	1,393	1,497	1,770	2,019	1,628
Small Enterprises loans (“SE”)	774	-	-	-	-
Net Retail Banking loans	38,293	47,278	58,233	66,018	55,115

Source: NCB Management information

At 31 December 2013G, retail loans primarily comprised of PF of 42,723 million Saudi Riyals (73.4% of retail loans), RF of 6,477 million Saudi Riyals (11.1%) and AL of 5,330 million Saudi Riyals (9.2%).

Retail loans increased by 19,940 million Saudi Riyals (CAGR of 23.3%) between 31 December 2011G and 31 December 2013G. This increase was in line with NCB’s strategy to focus on growing the retail business, specifically the PF portfolio, by primarily targeting the employees of the Governmental agencies (namely military and education). This increase was coupled with growing new RF facilities during 2012G and 2013G, in anticipation of the enacting of the new mortgage law in the Kingdom.

The product distribution mix within the RBG changed over the period commencing 1 January 2011G to 31 December 2013G. At 31 December 2011G, PF represented approximately 79.3% of the retail portfolio while at 31 December 2013G it represented approximately 73.4%. The change in the product mix was due to the increase in RF over the same period.

At 31 December 2011G, SE lending was part of the RBG and amounted to 774 million Saudi Riyals, however, this segment was transferred into the SME division within CBG during 2012G.

Lending policies in private banking were historically conservative. During 2013G, NCB revised these policies within internally acceptable limits to spur growth in this segment. This resulted in an increase of 551 million Saudi Riyals in 2013. Private banking currently includes secured finance and margin trading.

At 31 December 2013G, 80.0% of RBG exposure had maturity between one and five years in line with the maturity of PF and AL which represents the largest portion of RBG.

The maturity profile of RBG shows a moderate shift into longer term lending, as loans with maturity of above five years increased from 4.5% at 31 December 2011G to 12.5% at 31 December 2013G driven by the increase in residential finance.

At 31 December 2013G, RBG collaterals of 13,715 million Saudi Riyals were primarily comprised of RF collaterals (real estate) of 6,545 million Saudi Riyals, AL (vehicles) of 5,581 million Saudi Riyals. Collaterals coverage amounted to 16.2% at 31 December 2011G and increased to 23.2% at 31 December 2013G, driven by the increase in RF and AL.

Over the period between 31 December 2013G and 30 June 2014G, net retail loans continued its double digit growth trend through increasing by 7,785 million Saudi Riyals (13.4%). This increase was in line with NCB's Management strategy focused on growing all retail portfolios through consolidation of distribution channels and focus on growing products with the objective of having a better reach.

1. Personal finance (PF)

PF consists of *Tayseer* Al Ahli package finance facilities (*Tawarruq*) with underlying assets that are mostly related local commodities. In September 2013G, NCB also introduced another similar product, the equity-based *Tayseer*.

Net PF loans increased significantly over the December 2011G - December 2013G by 12,341 million Saudi Riyals (CAGR of 18.6%). The increase was mainly driven by the aggressive pursuit of payroll customers, given that PF facilities are backed by the individual's monthly salary domiciliation at NCB. The agreement with customers enables NCB to run a direct debit on the customer's payroll account on the due date of the instalment, which is set immediately upon salary transfer. An additional factor that led to an increase in military loans was the establishment of retail centres within military bases.

The PF program is salary-based lending to individuals both in the Government and private sectors. PF loans were mostly granted to military personnel representing 45.7% of the loans provided, followed by education representing 22.1% and civilian representing 15.2%. Accordingly, Government employees (including Saudi Aramco, Saudi Arabian Airlines, Saudi Arabian Basic Industries Corporation, Saudi Electricity Company and Saudi Telecom Company) represent the biggest PF customer base (approximately 97.5%), which is more resilient given the security of Government jobs.

Net PF loans continued its significant growth trend in the first half of 2014G through aggressive acquisition of payroll customers. The net PF portfolio grew to 45,969 million Saudi Riyals, corresponding to 7.6%. The newly launched Local Shares *Tayseer* product, which was introduced in January 2014G, contributed to 40.0 to 45.0% of the increase in the first half of 2014G. This is a *Shari'ah* compliant financing formula (*Tawarruq*), whereby, the Company buys and owns certain allowed local stocks and immediately sells them to the customer on credit, at the cost price plus the agreed profit margin. To comply with *Shari'ah* principles, the customer has the right to dispose the shares by reselling them and getting the fund or retaining them in his portfolio, however, clients would generally sell immediately to obtain the needed liquidity.

2. Residential finance (RF)

Outstanding RF is mostly structured as an *ijara* product, however, the portfolio also includes a range of other products such as *murabaha* and equity release.

Net RF increased sharply between 31 December 2011G and 31 December 2013G by 5,330 million Saudi Riyals (CAGR of 137.6%), due to the increased demand for housing, coupled with NCB's growing appetite for residential finance, supported by territory expansion covering 13 cities in the Kingdom. In the first half of 2014G, the net RF portfolio continued its substantial growth trend and grew by 37.1% (As compared to the balance at 31 December 2013G), reaching 8,878 million Saudi Riyals at 30 June 2014G.

The increase in RF was generated primarily from Government customers (education (CAGR 31 December 2011G – 31 December 2013G of 132.7%), military (CAGR 31 December 2011G – 31 December 2013G of 194.8%) and civilian (31 December 2011G – 31 December 2013G of 133.1%), in addition to private sector customers (CAGR 31 December 2011G – 31 December 2013G of 106.5%).

At 31 December 2013G, RF loans were mostly granted to customers working in the education sector representing 27.4% of the residential portfolio, followed by military forces employees representing 23.2% and private sector employees representing 14.7% of the portfolio. Accordingly, government employees represent the biggest customer base (approximately 84.4%) as they provide greater credit security due to the relative security associated with Government jobs.

3. Auto lease (AL)

The AL program is a *Shari'ah*-compliant product, whereby, NCB buys the car and leases it to the customer for a specified period of time, against monthly rental payment as per both parties (customer and NCB) agreement prior to car purchase. This involves a promise to sell the vehicle to the customer at the end of term, provided that the customer pays the pre-agreed balloon payment.

AL products are mainly *ijara* products (99.9%) that are secured by the vehicles purchased for customers. The current outstanding portfolio is split approximately equally between salary backed and non-salary backed products.

AL increased over the period between 31 December 2011G and 31 December 2013G by 2,059 million Saudi Riyals due to:

- focusing on increasing retail lending and leveraging on NCB relationships with car dealers. This was established through the direct presence within the car dealers' showrooms through sales representatives and sales made through NCB Sales Centres;
- increasing commissions paid to dealers; and
- establishing service centres in new territories.

Over the period between 31 December 2011G and 31 December 2013G, AL products were mostly granted to employees within the Quasi-Government sector (Saudi Aramco, Saudi Arabian Airlines, Saudi Arabian Basic Industries Corporation, Saudi Electricity Company and Saudi Telecom Company, civilian, education) and the military representing together 76.6% of the portfolio at 31 December 2013G (compared to 74.6% at 31 December 2011G). Since salary assignment is not a requirement, there is a considerable portion of the portfolio (23.4% in 2013G) granted to the private sector.

In the first half of 2014G, the AL portfolio continued its substantial growth trend (23.1% as compared to the balance at 31 December 2013G) and increased by 1,230 million Saudi Riyals.

4. Credit cards

Credit cards are mostly *Shari'ah*-compliant (Islamic credit cards structured as a Tawarruq product) with a minimal conventional portion that is currently being converted to a *Shari'ah*-compliant basis. Issuance of credit cards does not require the transfer / assignment of the customer's salary.

Credit card facilities increased by 377 million Saudi Riyals over the December 2011G - December 2013G period in line with the increase in the number of cards from 610,000 to 712,000 over the same period. The increase was generally linked to NCB's strategy to grow its market share through enhanced initial credit limit assignment and enhanced credit limit increase, leveraging on the application and behavioural score performance of the customers.

At 31 December 2013G, credit cards were mostly granted to employees within the private sector, which amounted to 1,019 million Saudi Riyals (gross) and accounted for 56.0% of the gross credit cards portfolio, followed by military personnel of 430 million Saudi Riyals representing 23.6% of the gross portfolio.

In the first half of 2014G, the credit cards portfolio continued growing with the number of issued cards increasing from approximately 712 thousands to 756 thousands. The outstanding portfolio balance stood at 2,019 million Saudi Riyals, representing a 14.1% increase from 31 December 2013G. This increase was the result of Senior Management's continued focus on this product, evidenced by excessive credit card sales through marketing efforts and campaigns.

5. Credit quality of retail loans and advances – NCB

Table 6-29 Credit quality of retail loans and advances - NCB

SAR in millions	31-Dec-11G	31-Dec-12G	31-Dec-13G	30-Jun-14G	30-Jun-13G
Performing loans	38,906	47,897	58,687	66,849	55,694
Non-performing loans	430	385	424	402	379
Gross loans	39,335	48,282	59,111	67,250	56,073
General provisions	(689)	(666)	(542)	(969)	(652)
Specific provisions	(354)	(338)	(336)	(263)	(306)
Provisions	(1,043)	(1,004)	(878)	(1,232)	(958)
Total	38,293	47,278	58,233	66,018	55,115

Source: NCB Management information

The bulk of the RBG portfolio (approximately 73.4% at 31 December 2013G) was comprised of PF products which are "secured" products due to salary assignment of the employee, with financing repayments being deducted directly from periodic salary payments on the due dates.

Over the December 2011G – December 2013G period, RBG performing loans increased by 19,781 million Saudi Riyals driven by the growth in the total retail portfolio.

NPLs as a percentage of gross loans decreased from 1.1% at 31 December 2013G to 0.7% at 31 December 2013G driven by the increase in the RBG portfolio coupled with the write offs of approximately 73 million Saudi Riyals of private banking NPLs in 2012G.

Total provisions to gross loans decreased from 2.7% at 31 December 2011G to 1.5% at 31 December 2013G following the decrease in provisions, in addition to the substantial growth in the portfolio.

Provisions coverage against NPLs amounted to 79.2% at 31 December 2013G compared to 82.4% at 31 December 2011G, as a result of the decrease in provisions.

The ratio of general provisions to performing loans declined from 1.8% at 31 December 2011G to 0.9% at 31 December 2013G. This decrease was the result of the availability of excess general provisions historically and a new decision to remove surplus provisions and maintain coverage in line with the net flow rate methodology.

RBG provisions are based on the net flow rate by bucket method which estimates the amount of loss from each bucket and is subject to review by NCB's Credit and Remedial Management Committee. The data for the last six months is used to calculate the average flow rates using a weighted average approach.

In June 2014, Senior Management decided to increase its general provisioning requirement for both the PF and RF portfolios, in order to safeguard against any potential default that may arise as a result of the aggressive growth in these portfolios. At 30 June 2014G, PF general provisions were set at 1.1% of the performing PF loans, whereas RF general provisions were set at 2.0% of the performing RF loans. It is worth nothing that general PF provisioning reached 0.5% as at 31 December 2013G, whereas the RF general provisions reached 1.0% at 31 December 2013G. This resulted in a net increase in general provision of the RBG portfolio from 542 million Saudi Riyals at 31 December 2013G to 969 million Saudi Riyals at 30 June 2014G.

6. Loans and advances by business segment – TFKB

Table 6-30 Loans and advances by business segment - TFKB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Corporate	17,284	22,006	25,976	29,308	24,429
Retail	2,942	4,987	5,924	6,231	5,712
Net loans	20,226	26,993	31,899	35,538	30,141

Source: NCB Management information

Corporate loans represented a significant portion of total loans at 85.5%, 81.5% and 81.4% at 31 December 2011G, 2012G and 2013G, respectively.

Net loans increased at a CAGR of 25.6% between 31 December 2011G and 2013G and reached 31,899 million Saudi Riyals from 20,226 million Saudi Riyals. SME loans (part of corporate) were the main driver of loan growth between 31 December 2011G and 2013G, representing 46.1% of total loans at 31 December 2013G.

At 31 December 2013G, corporate loans were concentrated in wholesale and intermediate trade (21.5%) and construction (11.4%) while retail loans were mainly in mortgages (78.4%).

Retail loans increased from approximately 14.5% of total loans to approximately 18.6% between 31 December 2011G and 2013G.

In the first half of 2014G, TFKB net loans grew by 11.4% primarily driven by the growth in corporate loans (12.8%) which increased from 25,976 million Saudi Riyals at 31 December 2013G to 29,308 million Saudi Riyals at 30 June 2014G.

7. Credit quality of corporate loans – TFKB

Table 6-31 Credit quality of corporate loans – TFKB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Performing loans	17,228	21,960	25,925	29,233	24,361
Non-performing loans	467	701	707	837	788
Gross loans	17,695	22,661	26,633	30,069	25,149
Provisions	(412)	(655)	(657)	(761)	(720)
Net loans	17,284	22,006	25,976	29,308	24,429

Source: NCB Management information

Corporate NPLs increased from 467 million Saudi Riyals at 31 December 2011G to 707 million Saudi Riyals at 31 December 2013G.

Despite the above, corporate NPL ratio dropped from 3.1% at 31 December 2012G to 2.7% at 31 December 2013G following the increase in the loan portfolio, whereas NPL coverage ratio decreased slightly from 93.5% to 92.9% over the same period. In the first half of 2014G, the NPL ratio remained relatively stable at 2.8%.

6 - 6 - 5 Other assets

6 - 6 - 5 - 1 Other assets by entity

Table 6-32 Other assets by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	3,962	5,044	7,142	8,341	7,536
TFKB	1,447	589	988	663	838
Others*	260	399	108	153	370
Total before consolidation adjustments	5,669	6,032	8,238	9,157	8,744
Consolidation adjustments	(1,148)	(2,135)	(2,540)	(1,982)	(2,200)
Total after consolidation adjustments	4,521	3,897	5,698	7,175	6,544

* Others relate to NCBC and REDCO

Source: Consolidated audited financial statements and NCB Management information

At 30 June 2014G, other assets were primarily attributable to NCB and TFKB:

- NCB (8,341 million Saudi Riyals): these mainly relate to inter-group balances (1,933 million Saudi Riyals), accrued special commission income (1,774 million Saudi Riyals), temporary bank cheques (1,662 million Saudi Riyals) and temporary owned assets (1,009 million Saudi Riyals) and others components. These are detailed further in the following section; and
- TFKB (663 million Saudi Riyals): these mainly relate to clearing account, real estate and securities to be sold, taxes paid in advance and other components consisting of prepayments, temporary accounts and miscellaneous receivables. Other assets slightly fluctuated between 31 December 2011G and 30 June 2014G mainly due to fluctuations in clearing accounts mainly in connection with cheques balances due from other banks.

Consolidation adjustments mainly relate to inter-group balances elimination in connection with the loans provided to TFKB by NCB (1,079 million Saudi Riyals, 2,066 million Saudi Riyals, 2,471 million Saudi Riyals, 1,982 million Saudi Riyals at 31 December 2011G, 2012G ,2013G and 30 June 2014G respectively).

6 - 6 - 5 - 2 NCB Other assets by nature

Table 6-33 Other assets by nature - NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Inter-Group balances	707	1,822	1,957	1,933	1,945
Accrued special commission income	1,137	1,363	1,405	1,774	1,312
Temporary bank cheques for title transfer	19	261	1,158	1,662	1,113
Temporary owned assets – Islamic Banking	333	348	1,008	1,009	1,607
Positive fair value of derivatives, net	418	358	421	595	388

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Margin deposits against derivatives and repos	641	285	437	541	301
Fixed assets in progress	186	172	370	443	282
Others	521	435	386	384	588
Total	3,962	5,044	7,142	8,341	7,536

Source: Audited financial statements and NCB Management information

At the NCB level, other assets increased from 3,962 million Saudi Riyals at 31 December 2011G to 5,044 million Saudi Riyals at 31 December 2012G mainly due to the increase in the inter-Group funding provided by NCB to TFKB (increase of 1,115 million Saudi Riyals) over the period.

At 31 December 2013G other assets increased to 7,142 million Saudi Riyals (increase of 2,098 million Saudi Riyals) primarily as a result of the increase: (i) in the temporary cheques issued against title transfer of properties (mainly land parcels) (increase of 897 million Saudi Riyals) and (ii) temporary owned commodities purchased by NCB as part of *murabaha* and *yayseer* financing programs (increase of 660 million Saudi Riyals), in addition to other increases in margin deposits and fixed assets in progress.

Subsequently other assets increased to 8,341 million Saudi Riyals at 30 June 2014G (increase of 1,199 million Saudi Riyals) primarily as a result of the increase in: (i) temporary bank cheques for title transfer (increase of 504 million Saudi Riyals) and to a lesser extent to (ii) accrued special commission income (increase of 369 million Saudi Riyals) in addition to other increases in positive fair value of derivatives, margin deposits and fixed assets in progress.

Inter-group balances consist of inter-group funding activities performed at arm's length and have a maturity of 3 to 5 years earning normal market rates. The observed increase at 31 December 2012G is due to funding provided to TFKB by NCB in early 2012G, denominated in U.S. Dollars.

Accrued special commission income are accrued interest and special commissions earned since last coupon/ loan payment for investments, loans and derivatives. They slightly increased between 31 December 2011G and 30 June 2014G, in line with the build-up of the loans and investments portfolios over the period.

Temporary bank cheques issued for title transfer represent cheques issued by NCB for the acquisition of fixed assets. These cheques should be presented to notaries in order to process the title transfer of properties from the seller to NCB. The significant increase at 30 June 2014G is mainly due to the increase in residential loans granted to clients over the period (against which the Bank requires collateral under the form of real estate properties, and issues temporary cheques to process the ownership transfer of these properties).

Temporary owned assets relate to commodities purchased by NCB as part of the Murabaha and *Tayseer* financing arrangements.

Margin deposits consist of collateral in the form of cash or securities deposited by NCB to clearing houses against margin calls received upon changes in fair value of derivatives and repurchase agreements.

Positive fair value of derivatives mainly related to the positive change in fair value of derivatives held for hedging and proprietary trading.

Fixed assets in progress consist of capitalized costs in connection with the licence, maintenance and development of integrated management software, which was still under development at 30 June 2014G.

Others mainly consist of prepayments and accounts receivable in connection with branches and ATM leases prepayments.

6 - 6 - 6 Due to banks and other financial institutions

6 - 6 - 6 - 1 Due to banks and other financial institutions by entity

Table 6-34 Due to banks and other financial institutions by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	17,706	21,567	17,645	18,180	19,350
TFKB	2,965	5,976	9,023	9,961	6,842
Total before consolidation adjustments	20,671	27,543	26,668	28,141	26,192
Consolidation adjustments	(731)	(1,969)	(1,943)	(1,943)	(1,943)
Total after consolidation	19,940	25,574	24,725	26,198	24,249

Source: Consolidated audited financial statements and NCB Management information

6 - 6 - 6 - 2 Due to banks and other financial institutions by nature – NCB

Table 6-35 Due to banks and other financial institutions by nature – NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited
Current accounts	2,210	3,929	2,970	3,446
Money market deposits	3,339	10,079	7,388	11,811
Repos	12,156	7,560	7,287	2,923
Total	17,706	21,567	17,645	18,180

Source: Audited financial statements and NCB Management information

NCB's due to banks and other financial institutions balance were comprised of (i) current accounts and money market deposits which are non-interest and interest bearing accounts respectively, deposited by other local banks at NCB for the sole purpose of managing their nostros (i.e. facilitate settlement of Foreign Exchange (FX) and trade transactions) and (ii) repos which represent commitments made by NCB to repurchase sold assets at a specified future date. Such assets continue to be recognized on the balance sheet as NCB substantially retains all the risks of ownership and rewards.

NCB's due to banks and other financial institutions balance increased from 17,706 million Saudi Riyals at 31 December 2011G to 21,567 million Saudi Riyals at 31 December 2012G driven by an increase in money market deposits by 6,740 million Saudi Riyals and partially offset by the decrease in repos by 4,596 million Saudi Riyals over the same period. The increase in money market deposits was driven by the market demand for such placements.

NCB's due to banks and other financial institutions balance decreased from 21,567 million Saudi Riyals at 31 December 2012G to 17,645 million Saudi Riyals at 31 December 2013G mainly driven by a decrease in money market deposits by 2,691 million Saudi Riyals from 10,079 million Saudi Riyals at 31 December 2012G to 7,388 million Saudi Riyals at 31 December 2013G. The decrease in money market deposits was driven by the market demand for such placements.

NCB's due to banks and other financial institutions balance increased from 17,645 million Saudi Riyals at 31 December 2013G to 18,180 million Saudi Riyals at 30 June 2014G mainly driven by an increase in money market deposits by 4,423 million Saudi Riyals from 7,388 million Saudi Riyals at 31 December 2013G to 11,811 million Saudi Riyals at 30 June 2014G and partially offset by the decrease in repos by 4,364 million Saudi Riyals over the same period. The increase in money market deposits was driven by the market demand for such placements.

6 - 6 - 6 - 3 Due to banks and other financial institutions by nature – TFKB

Table 6-36 Due to banks and other financial institutions by nature – TFKB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Money market deposits	2,965	5,976	9,023	9,961	6,842
Total	2.965	5,976	9,023	9,961	6,842

Source: NCB Management information and TFKB Management information

TFKB's due to banks and other financial institutions balance was comprised of money market deposits which are interest bearing accounts, deposited by other local and international banks at TFKB for the sole purpose of managing their nostros (i.e. facilitate settlement of Foreign Exchange (FX) and trade transactions).

TFKB's due to banks and other financial institutions balance which was solely comprised of money market deposits, increased by 3,011 million Saudi Riyals from 2,965 million Saudi Riyals at 31 December 2011G to 5,976 million Saudi Riyals at 31 December 2012G driven by funds borrowed which were required to support the loan growth.

TFKB's due to banks and other financial institutions balance increased further by 3,047 million Saudi Riyals from 5,976 million Saudi Riyals at 31 December 2012G to 9,023 million Saudi Riyals at 31 December 2013G driven also by a larger shift towards funds borrowed in funding composition. Funds borrowed at 31 December 2012G constituted 14.0% of the funding composition whereas they constituted 21.0% of the mix at 31 December 2013G.

6 - 6 - 7 Customers' deposits

6 - 6 - 7 - 1 Customers' deposits by entity

Table 6-37 Customers deposits' by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	220,256	249,651	273,740	315,164	261,925
TFKB	19,197	23,875	26,857	30,429	26,115
Others*	5	4	5	4	5
Total after consolidation	239,458	273,530	300,602	345,597	288,045

* Others relate to NCBC

Source: Consolidated audited financial statements and NCB Management information

6 - 6 - 7 - 2 Customers' deposits by nature – NCB

Table 6-38 Customers' deposits by nature – NCB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Current deposits	163,913	184,846	228,928	256,908	214,898
Savings	145	141	143	152	142
Time	46,352	52,683	33,138	42,633	33,935

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Others	9,847	11,980	11,531	15,471	12,950
Total	220,256	249,651	273,740	315,164	261,925

Source: Audited financial statements and NCB Management information

NCB's customer deposits balance was comprised of: (i) current deposits which are non-interest bearing deposits mainly related to retail and others, (ii) savings which are interest bearing deposits mainly related to employee accruals resulting from the in-house saving scheme, (iii) time deposits which are special commission bearing deposits of varying maturities offered to the clients of NCB and (iv) others which included: (a) margins deposits made by customers as down-payments on LC's and LG's (b) remittances, i.e. temporary accounts for the transfer of funds from/to customers' accounts and (c) dormant accounts which represent accounts with no movements for a period exceeding 5 years.

Total deposits increased by 29,395 million Saudi Riyals from 220,256 million Saudi Riyals at 31 December 2011G to 249,651 million Saudi Riyals at 31 December 2012G driven by an increase in current deposits by 20,933 million Saudi Riyals from 163,913 million Saudi Riyals at 31 December 2011G to 184,846 million Saudi Riyals at 31 December 2012G and time deposits by 6,331 million Saudi Riyals from 46,352 million Saudi Riyals at 31 December 2011G to 52,683 million Saudi Riyals at 31 December 2012G. The increase in these deposits resulted from NCB's successful deposit acquisition strategy which amongst other things involved the roll-out of new branches over the same period.

Total deposits increased by 24,089 million Saudi Riyals from 249,651 million Saudi Riyals at 31 December 2012G to 273,740 million Saudi Riyals at 31 December 2013G driven by a further increase in current deposits by 44,082 million Saudi Riyals from 184,846 million Saudi Riyals at 31 December 2012G to 228,928 million Saudi Riyals at 31 December 2013G. The increase in total deposits was due to the continued success of NCB's deposit acquisition strategy which amongst other factors involved the roll-out of new branches in the Kingdom over the same period. It should be noted, however, that during 2013G, approximately 19,545 million Saudi Riyals was transferred from maturing time deposit accounts to current deposit accounts thereby resulting in a disproportionate increase and decrease in current and time deposits over the same period, respectively.

Total deposits increased by 41,424 million Saudi Riyals from 273,740 million Saudi Riyals at 31 December 2013G to 315,164 million Saudi Riyals at 30 June 2014G driven by a further increase in current deposits by 27,980 million Saudi Riyals from 228,928 million Saudi Riyals at 31 December 2013G to 256,808 million Saudi Riyals at 30 June 2014G. The increase in total deposits was due to the continued success of NCB's deposit acquisition strategy which amongst other factors involved the roll-out of new branches in the Kingdom over the same period.

6 - 6 - 7 - 3 Customers' deposits by nature – TFKB

Table 6-39 Customers' deposits by nature – TFKB

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Current deposits	4,652	5,310	6,061	5,899	5,678
Time	14,075	17,850	19,958	23,688	19,836
Others	470	715	838	842	601
Total	19,197	23,875	26,857	30,429	26,115

Source: Audited financial statements of TFKB and TFKB Management information

TFKB' customer deposits balance was comprised of (i) current deposits which included non-interest bearing deposits, (ii) time deposits which are special commission bearing deposits of varying maturities and (iii) others which included cash guarantees received for letters of guarantees, external guarantees and acceptance credits, safe deposit box, cash loans and cheque books given as well as collection of invoices and payment orders.

Total TFKB deposits increased by 4,678 million Saudi Riyals from 19,197 million Saudi Riyals at 31 December 2011G to 23,875 million Saudi Riyals at 31 December 2012G driven mainly by an increase in time deposits by 3,775 million Saudi Riyals from 14,075 million Saudi Riyals at 31 December 2011G to 17,850 million Saudi Riyals at 31 December 2012G and to a lesser extent by current deposits which increased by 658 million Saudi Riyals from 4,652 million Saudi Riyals at 31 December 2011G to 5,310 million Saudi Riyals at 31 December 2012G. The increase in these deposits resulted from TFKB's successful deposit acquisition strategy which amongst other things involved the roll-out of new branches in Turkey over the same period.

Total TFKB deposits increased by 2,982 million Saudi Riyals from 23,875 million Saudi Riyals at 31 December 2012G to 26,857 million Saudi Riyals at 31 December 2013G driven mainly by an increase in time deposits by 2,108 million Saudi Riyals from 17,850 million Saudi Riyals at 31 December 2012G to 19,958 million Saudi Riyals at 31 December 2013G and to a lesser extent by current deposits which increased by 751 million Saudi Riyals from 5,310 million Saudi Riyals at 31 December 2012G to 6,061 million Saudi Riyals at 31 December 2013G. The increase in these deposits resulted from TFKB's successful deposit acquisition strategy which amongst other things involved the roll-out of new branches in Turkey over the same period. It is also worth noting that the renewal rate for participation accounts at 31 December 2012G is 74.0% while it was 87.0% at 31 December 2013G, further increasing the participation accounts balance.

Total TFKB deposits increased by 3,572 million Saudi Riyals from 26,857 million Saudi Riyals at 31 December 2013G to 30,429 million Saudi Riyals at 30 June 2014G mainly driven by an increase in time deposits by 3,730 million Saudi Riyals from 19,958 million Saudi Riyals at 31 December 2013G to 23,688 million Saudi Riyals at 30 June 2014G. The increase in these deposits resulted from TFKB's successful deposit acquisition.

6 - 6 - 8 Other liabilities

6 - 6 - 8 - 1 Other liabilities by entity

Table 6-40 Other liabilities by entity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
NCB	5,075	5,268	6,624	6,388	6,105
TFKB	908	1,269	1,072	1,346	1,081
Others*	242	246	258	183	230
Total before consolidation adjustments	6,225	6,783	7,954	7,917	7,416
Consolidation adjustments	(10)	(31)	(48)	(38)	(47)
Total after consolidation	6,215	6,752	7,906	7,879	7,369

* Others relate to NCBC and REDCO

Source: Consolidated audited financial statements, NCB Management information

At 30 June 2014G, other liabilities were primarily attributable to NCB and TFKB:

- NCB (6,388 million Saudi Riyals): these mainly relate to end of service indemnity (EOSI) and staff saving fund provisions (1,072 million Saudi Riyals), customer litigation and indirect facilities provisions (940 million Saudi Riyals), negative fair value of derivatives (815 million Saudi Riyals) and auto-leasing and Tayseer payables (509 million Saudi Riyals) and others components (consisting of letter of credit payables, finance and lending fees, temporary accounts, Zakat accruals and bonuses). These are detailed further in the following section.
- TFKB (1,346 million Saudi Riyals): these mainly related to clearing accounts, cash guarantees received against loans, unearned income balances in connection with commissions collected in advance and other components consisting of transitory and other payables accounts. Other liabilities slightly fluctuated between 31 December 2011G and 30 June 2014G mainly due to fluctuations in clearing accounts.

6 - 6 - 8 - 2 NCB Other liabilities by nature

Table 6-41 Other liabilities by nature

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
EoSI and staff saving fund	863	887	973	1,072	990
Provisions	788	877	862	940	997
Negative fair value of derivatives	741	475	569	815	466
Other accruals and payables	699	628	683	809	535
Auto-leasing and Tayseer payables	114	175	703	509	1,216
Letter of credit payables	130	137	445	453	259
Finance and lending fees	181	354	367	389	231
Temporary and suspense accounts	359	409	325	245	263
Zakat accruals	293	415	813	230	251
Bonuses	365	381	354	195	178
Others	542	530	530	731	719
Total	5,075	5,268	6,624	6,388	6,105

Source: Audited financial statements, Management information

Other liabilities increased from 5,075 million Saudi Riyals at 31 December 2011G to 6,388 million Saudi Riyals at 30 June 2014G (increase of 1,313 million Saudi Riyals) primarily as a result of an increase in (i) auto-leasing and *Tayseer* payables (increase of 395 million Saudi Riyals) and (ii) EoSI and staff saving fund (increase of 209 million Saudi Riyals).

EOSI and staff saving fund provisions are based on the rules stated under the Kingdom's Labour and Workmen Law. They progressively increased over the period commencing 1 January 2011G to 30 June 2014G, in line with the increase in the number of employees.

At 30 June 2014G provisions mainly consisted of (i) provisions for customer litigations (534 million Saudi Riyals) which mainly related to provisions for potential legal losses that may arise from ongoing litigation, (ii) provisions for doubtful indirect facilities (406 million Saudi Riyals) which relate to specific and collective provisions in respect of trade finance facilities outstanding commitments.

Negative fair value of derivatives mainly relate to the negative change in fair value of derivatives held for hedging and proprietary trading.

Other accruals and payables mainly correspond to amounts due to utilities suppliers, and other sundry expenses. These amounts are short term by nature and are related to operational expenditures.

Auto-leasing and *Tayseer* payables consist of outstanding balances towards vehicles and commodities suppliers under *Murabaha* and *Tayseer* arrangements. The observed increase at 31 December 2013G is mainly related to the earlier mentioned increase in the temporary owned assets (refer to temporary owned assets under section 6-6-8 "*Management's Discussion And Analysis Of Financial Condition and Results of Operations – Consolidated balance sheet – Other Liabilities*") and subsequently decreased between 30 June 2014G and 31 December 2013G due to a recent settlement to local *Tayseer* suppliers at the end of the six month period.

Letter of credit payables relate to import letter of credit agreements where documents are received prior to settlements being made to correspondent banks.

Finance and lending fees consist of unamortized portion of the commissions charged for the commitments to secure a loan. These are amortized throughout the life of the loan.

Temporary and suspense accounts mainly relate to transitory and regular suspense accounts constantly reconciled and monitored.

Zakat accruals are computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Kingdom's Zakat Regulations. Zakat is paid by NCB on the shareholders' behalf and is not charged to the statement of income but is deducted from retained earnings as an appropriation of net income. The substantial increase in Zakat payments between 31 December 2011G and 31 December 2013G is due to the ministry of finance decision in 2007G to change the treatment of treasury bills to a non-deductible Zakat item and to the run-off of SGDBs. However, Zakat accruals decreased at 30 June 2014G mainly due to the fact that the financial year 2013G Zakat fees (749 million Saudi Riyals) were settled in April 2014G.

Bonuses are accrued at 4.0% of adjusted net income as approved by the board. However, distribution of bonus is determined by the human resource group based on a determined bonus grading matrix.

6 - 6 - 9 Other balance sheet components

Other balance sheet components consist of the following:

6 - 6 - 9 - 1 Investments in associates

These represent equity investments in two companies at 30 June 2014G (three companies at 31 December 2013G) incorporated in the Kingdom accounted for under the equity method. At 31 December 2013G, these investments consisted of Commercial Real Estate Markets Company, Al Behar Real Investment Company and Al Ahli Takaful Company. At 30 June 2014G as a result of the voluntary liquidation of Al Behar Real Investment Company, NCB held a group of real estate as a result of the liquidation, then NCB sold these properties, and the investments in associates decreased to 408 million Saudi Riyals as a result of the liquidation and the 203 million Saudi Riyals devaluation of the Commercial Real estate Markets Company. Al Behar Real Investment Company has been liquidated in accordance with the instructions and requirements of SAMA.

6 - 6 - 9 - 2 Other real estate

These mainly relate to properties obtained in settlement of debt. These properties consist of lands and buildings acquired from NCB (91.3%) and TFKB (8.7%) recorded at cost and adjusted yearly according to independent real estate appraisals. Other real estate increased significantly at 30 June 2014G to 861 million Saudi Riyals mainly due the acquisition of 18 parcels of lands as a result of settlement of debt.

6 - 6 - 9 - 3 Property and equipment

Table 6-42 Property and Equipment by entity

In millions (SAR)	31 December 2011G (Audited)	31 December 2012G (Audited)	31 December 2013G (Audited)	30 June 2014G (Audited)	30 June 2013G (Unudited)
NCB	2,009	2,199	2,333	2,599	2,166
TFKB	246	288	302	716	261
Other*	77	63	127	123	57
Total before consolidation	2,332	2,550	2,762	3,438	2,484
Consolidation adjustment	(15)	--	--	--	--
Total after consolidation	2,317	2,550	2,762	3,438	2,484

*The other items relate to NCB Capital and the Real Estate Development Company

Source: Consolidated financial statements and NCB management

On 30 June 2014G, the Group's Property and Equipment item includes:

- NCB (2,599 million Saudi Riyals): This includes primarily buildings and improvements to leased buildings (918 million Saudi Riyals), land (810 million Saudi Riyals), IT devices and equipment (546 million Saudi Riyals), furniture and appliances (250 million Saudi Riyals), in addition to other components.
- Türkiye Finans Katılım Bankası (716 million Saudi Riyals): This includes primarily land and buildings, in addition to other tangible assets. The Property and Equipment item rose noticeably between 31 December 2013G and 30 June 2014G in the wake of land purchases made for the purpose of building the Bank's new main offices.

Table 6-43 Property and Equipment by nature - Consolidated

In millions (SAR)	31 December 2011G (Audited)	31 December 2012G (Audited)	31 December 2013G (Audited)	30 June 2014G (Audited)	30 June 2013G (Unaudited)
Real estate	572	570	772	866	604
Buildings and improvements on leased property	1,058	1,065	1,032	1,507	1,044
IT and equipment	336	523	539	596	470
Furniture and fixtures	269	316	341	393	306
Communication devices	76	68	70	70	60
Other	6	8	8	6	-
Total	2,317	2,550	2,762	3,438	2,484

Table 6-44 Property and Equipment by nature - NCB

In millions (SAR)	31 December 2011G (Audited)	31 December 2012G (Audited)	31 December 2013G (Audited)	30 June 2014G (Audited)	30 June 2013G (Unaudited)
Real estate	550	548	715	810	582
Buildings and improvements on leased property	918	918	888	951	912
IT and equipment	305	476	452	510	426
Furniture and fixtures	156	184	204	253	186
Communication devices	74	66	68	70	60
Other	6	7	6	5	-
Total	2,009	2,199	2,333	2,599	2,166
Number of Branches owned or leased					
Leased Branches (excluding personal and QuickPay)	205	207	222	225	213
Owned Branches (excluding personal and QuickPay)	82	82	90	94	82
Total Branches (excluding personal and QuickPay)	287	289	312	319	295

Table 6-45 Property and Equipment by nature - TFKB

In millions (SAR)	31 December 2011G (Audited)	31 December 2012G (Audited)	31 December 2013G (Audited)	30 June 2014G (Audited)	30 June 2013G (Unaudited)
Buildings and improvements on leased property	139	137	115	528	123
IT and equipment	22	38	64	62	37
Furniture and fixtures	84	111	121	125	101
Communication devices	1	1	1	-	-
Other	-	1	1	1	-
Total	246	288	302	716	261

Table 6-46 Property and Equipment by nature - NCBC

In millions (SAR)	31 December 2011G (Audited)	31 December 2012G (Audited)	31 December 2013G (Audited)	30 June 2014G (Audited)	30 June 2013G (Unaudited)
Real estate	22	22	57	57	22
Buildings and improvements on leased property	17	11	29	28	9
IT and equipment	8	9	23	23	8
Furniture and fixtures	30	20	17	15	18
Total	77	62	126	123	57

These mainly comprise of lands, buildings and leasehold improvements mainly held by NCB. The rest consist of furniture, equipment and vehicles. All of the Group's assets are recorded at historical costs less depreciation charges.

All fixed assets are depreciated using the straight-line method over the respective estimated useful lives of the assets. This includes provisions for buildings over 40 years, leasehold improvements over the lease period or 5 years (whichever is shorter), and furniture, equipment and vehicles over 3 to 10 years.

The increase in property, plant and equipment balance over the period was largely driven by NCB's expansionary strategy translated in the acquisition of 19 new parcels of land and the establishment of new branches in the Kingdom over the period commencing 1 January 2011G to 31 December 2013G and another 27 new parcels of land over the period commencing 1 January 2014G to 30 June 2014G.

6 - 6 - 9 - 4 Goodwill and other intangible assets

These mainly consist of the goodwill recognized upon acquisition of TFKB of 541 million Saudi Riyals and other intangible assets amounting to 276 million Saudi Riyals at 30 June 2014G. This goodwill is tested for impairment on a yearly basis in accordance with IFRS based on the determination of the recoverable amount of the investments.

6 - 6 - 9 - 5 Debt securities issued

By virtue of the nature of banking and approved sources of funding, which primarily include customer deposits, the balances of banks and other financial institutions, in addition to issued debt instruments, the Group does not have any term loans or any other liabilities.

During the first 6 months of 2014, the Group issued 7,989 million Saudi Riyals of Sukuk debt securities, of which 5,000 million Saudi Riyals were recognized as Tier II capital, hence securing sufficient capital for the Group's future growth and expansion.

6 - 6 - 9 - 6 Group's Shareholders' equity

Table 6-47 Group's shareholders' equity

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Share capital	15,000	15,000	15,000	20,000	15,000
Treasury shares	(177)	(177)	(177)	(191)	(177)
Statutory reserves	12,105	13,624	15,103	15,103	13,624
Other reserves (cumulative changes in fair value)	1,918	1,857	1,354	1,712	1,482
Retained earnings	5,227	7,051	9,699	7,976	11,382
Proposed dividend	1,496	1,496	1,646	1,596	-
Foreign currency translation	(1,404)	(1,147)	(1,691)	(1,589)	(1,399)
Non-controlling interest	1,420	1,700	1,602	1,747	1,710
Total equity	35,585	39,404	42,536	46,354	41,622

Source: Consolidated audited financial statements

At 30 June 2014G, the Group's total equity amounted to 46,354 million Saudi Riyals and is mainly composed of the following:

NCB's share capital of twenty billion (20,000,000,000) Saudi Riyals consists of one billion, nine hundred and ninety four million, six hundred and thirty three thousand, and five hundred and thirty one (1,994,633,531) shares and five million, three hundred and sixty six thousand, and four hundred and sixty nine (5,366,469) treasury shares issued and fully paid up with a par value of ten (10) Saudi Riyals per Share. The Board of Directors in its meeting held on 29 January 2014G proposed to increase the authorized and issued share capital of NCB from fifteen billion (15,000,000,000) Saudi Riyals to twenty billion (20,000,000,000) Saudi Riyals through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held at 31 December 2013G). This was approved by NCB's general assembly and by Saudi legal authorities (SAMA, Ministry of Commerce and Industry).

With respect to the nature of corporate capital, NCB's issued capital has not witnessed any change during the last three years or as of the date of this Prospectus. However, the issued capital of Türkiye Finans Katılım Bankası witnessed the following developments:

- During 2012G, issued capital rose by TL 850 million (approximately 1,500 million Saudi Riyals based on the exchange rate as at 30 June 2014 (1.76 Saudi Riyals per TL)) to TL 1,650 million (approximately 2,911 million Saudi Riyals based on the exchange rate as at 30 June 2014) (TL 1 per nominal share) through an increase in cash of TL 150 million (approximately 265 million Saudi Riyals based on the exchange rate as at 30 June 2014) , transferring TL 700 million (approximately 1,235 million Saudi Riyals based on the exchange rate as at 30 June 2014) from the reserve.
- During 2013G, issued capital rose to TL 1,775 million (approximately 3,132 million Saudi Riyals based on the exchange rate as at 30 June 2014) through a cash contribution of TL 125 million (approximately 220 million Saudi Riyals based on the exchange rate as at 30 June 2014).

On 16 September 2009G, NCB acquired from a customer as a result of a partial set-off of debt due to NCB from one of its customers (who owns a stake in NCB's Shares) four million twenty four thousand eight hundred and fifty two (4,024,852) of its own Shares, representing 0.27% of NCB's issued Shares at the time of their acquisition, for a total amount of one hundred and seventy seven million, ninety three thousand, and four hundred and eighty eight (177,093,488) Saudi Riyals. Following the recent distribution by NCB of bonus Shares to its Shareholders as a result of the capital increase approved by the Extraordinary General Assembly on 30/05/1435H (corresponding to 31 March 2014G), the number of Treasury Shares has increased and, as at the date of this Prospectus, NCB holds five million three hundred and sixty six thousand four hundred and sixty nine (5,366,469) Treasury Shares. NCB's holding of Treasury Shares has been approved by MOCI and SAMA subject to the condition that the Treasury Shares must be sold by NCB on the open market within one year from the date on which the Shares become publicly traded. NCB will make an announcement through Tadawul upon completing the sale of the Treasury Shares.

Statutory reserve represents the appropriated requirement as per Article 7 of the Banking Control Law and Regulations issued by SAMA, whereby, all companies are required to transfer 25% of the annual net income to statutory reserve, until the reserve equals the paid up capital. This increased over the historical 3 year period as a result of an increase in the Group's net income. These reserves are not available for distribution. TFKB transferred 5% of its previous year annual net income to statutory reserve.

Other reserves (1,712 million Saudi Riyals) represent the net unrealized revaluation gains and losses of the effective portion of the cash flow hedges and the available for sale investments. These reserves are not available for distribution.

Retained earnings increased from 5,227 million Saudi Riyals at 31 December 2011G to 9,699 million Saudi Riyals at 31 December 2013G in line with the Group's growth in operations, but subsequently decreased to reach 7,976 million Saudi Riyals at 30 June 2014, mainly due to the capital increase approved by the Board of Directors on 29 January 2014.

A proposed interim dividend for the financial year 2014G (1,596 million Saudi Riyals) represents an advance on the yearly appropriated amount of dividends of annual profits as declared by the Board. These dividends are paid net of Zakat. Dividends have been paid at 1.80, 1.80 and 1.90 SAR per Share for 2011G, 2012G and 2013G respectively and 0.80 SAR for 30 June 2014G.

Foreign currency translation represents reserves for exchange differences arising from translation of transactions and balances from functional currency of subsidiaries (mainly Lira for TFKB) to the Group presentation currency (Saudi Riyals).

6 - 6 - 9 - 7 Group Capital adequacy

Table 6-48 Group capital adequacy

SAR in millions	31-Dec-11G	31-Dec-12G	31-Dec-13G	30-Jun-14G	30-Jun-13G
Credit risk weighted assets	169,733	203,732	226,641	259,985	215,687
Operational risk weighted assets	22,108	22,209	24,480	25,632	23,362
Market risk weighted assets	7,810	6,157	5,708	7,007	6,771
Risk weighted assets - Pillar I	199,651	232,098	256,829	292,624	245,820
Tier 1 capital	34,318	38,199	41,630	45,344	40,565
Tier II capital	2,009	2,462	2,376	7,668	2,575
Total regulatory capital	36,327	40,661	44,006	53,012	43,140
Capital adequacy ratio	18.2%	17.5%	17.1%	18.1%	17.5%
Minimum requirement as per Basel III(%)	8.0%	8.0%	8.0%	8.0%	8.0%

Source: Consolidated audited financial statements and Management information

The Group's capital primarily consists of share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less Treasury Shares, goodwill, intangible assets and other prescribed deductions.

At 30 June 2014G, credit risk weighted assets represented approximately 88.8% of total risk weighted assets (as compared to 88.2% at 31 December 2013G and 87.8% at 31 December 2012G and 85.0% at 31 December 2011G). The Group's major exposures included credits to corporate and retail customers, and investments in debt-type instruments.

At 30 June 2014G, the Group reported a capital adequacy ratio of 18.1% which is above the minimum requirements of 8.0% as set by Basel III and SAMA. This ratio has been decreasing from 18.2% in 2011G to 17.1% at 31 December 2013G, driven by the increase in credit risk weighted assets over the period (increase of 56,908 million Saudi Riyals), primarily, as a result of the loans portfolio growth of NCB (increase of 40,725 million Saudi Riyals) and TFKB (increase of 11,635 million Saudi Riyals), and to a lesser extent, the growth in investments. However, the capital adequacy ratio increased to 18.1% at 30 June 2014G mainly due to the issuance of new debt securities in the first six months of the financial year 2014G and the natural continued growth of the Group fuelled by the generation of earnings.

6 - 6 - 9 - 8 Group credit related commitments and contingencies

Table 6-49 Group credit related commitments and contingencies

SAR in millions	31-Dec-11G Audited	31-Dec-12G Audited	31-Dec-13G Audited	30-Jun-14G Audited	30-Jun-13G Unaudited
Guarantees	47,861	50,637	48,154	50,695	48,282
Letter of credit	18,955	21,357	20,473	18,633	16,797
Irrevocable commitments to extend credit	9,100	10,048	9,666	8,458	9,648
Acceptances	3,262	3,490	3,381	3,743	3,940
Total	79,177	85,533	81,674	81,530	78,667

Source: Consolidated audited financial statements

LCs are generally issued by NCB to support its customers in their trade transactions assuring payment to the seller of goods and/or services. Commissions earned on LCs mainly depend on LC volumes handled by NCB as well as the duration, amount and collateral for LCs.

Outstanding LCs handled by the Group increased by 12.7% between 31 December 2011G and 31 December 2012G but decreased by 4.1% by the end of 2013G. The LCs volume handled by NCB at 30 June 2014G represented 50% of the total LCs handled during the year 2013G. This fluctuation was due to normal offer and demand conditions of the market in the Kingdom (NCB representing approximately 92% of the Group's outstanding LCs at 30 June 2014G). Historically, the LCs handled by NCB are short term by nature whereas 74% of the outstanding LCs at the end of the financial year 2013G have a maturity of 3 months or less.

Letter of guarantees essentially guarantee a sum of money to the beneficiary in case of a default event. Guarantees mainly include financial and performance guarantees. Guarantees are mainly issued for 1 year, 65% of the total guarantees at 30 June 2014G have a maturity of less than one year.

Acceptances are promised future payments, or time drafts, which are accepted and guaranteed by NCB and drawn on a deposit in NCB. Acceptances represented 5% of the total trade finance portfolio at 30 June 2014G of which 66% have a maturity of less than 3 months.

Irrevocable commitments consist solely of NCB's commitments and primarily comprise of undrawn lines of financing. These balances are highly concentrated, representing facilities granted to only 26, 27, 30 and 26 customers at the end of 2011G, 2012G, 2013G and 30 June 2014G respectively. The fluctuation in irrevocable commitments between 31 December 2011G and 30 June 2014G is driven by the granting and the utilization of corporate financing facilities. As confirmed by Senior Management, undrawn amounts under credit facilities do not require additional credit committee approvals prior to drawdown.

6 – 7 Consolidated Cash Flow Statement

Table 6-50 Consolidated cash flow statement

SAR in millions	2011G Audited	2012G Audited	2013G Audited	YTD-Jun-14 Audited	YTD-Jun-13 Mgt.
Net income for the period	6,106	6,613	7,989	5,034	4,405
Adjustments for non-cash items	1,279	1,469	1,053	(151)	330
Due from banks and SAMA	(3,394)	(3,065)	(4,714)	(8,502)	(5,993)
Loans and advances to customers	(10,726)	(28,609)	(29,681)	(18,806)	(17,247)
Due to banks and financial institutions	5,608	5,451	93	1,468	(892)
Customer deposits	10,297	32,884	30,833	44,980	16,247
Other assets and liabilities	(659)	1,040	(1,026)	(1,355)	(1,850)
Investments held for Trading and FVIS	1,418	921	(47)	(150)	88
Change in operating assets and liabilities	2,544	8,622	(4,542)	17,635	(9,647)
Net cash from operating activities	9,929	16,704	4,500	22,518	(4,912)
Capital expenditures	(613)	(631)	(713)	(906)	(176)
Purchase of non-trading/non-FVIS investments	(131,074)	(72,545)	(75,720)	(77,115)	(58,646)
Proceeds from sale of non-trading/non-FVIS investments	118,257	76,233	66,561	39,752	45,547
Net cash from investing activities	(13,430)	3,057	(9,872)	(38,269)	(13,275)
Dividends payments	(2,693)	(2,693)	(2,693)	(1,646)	(1,496)
Debt securities issued	-	-	1,511	7,989	1,511
Net movement in non-controlling interests	(2)	97	58	(19)	70
Net cash from financing activities	(2,695)	(2,596)	(1,124)	6,324	85
Net cash flows	(6,196)	17,165	(6,496)	(9,427)	(18,102)
Beginning "period" cash and cash equivalents	27,625	20,716	38,088	30,593	38,088
Foreign currency translation reserve – net movement	713	207	(999)	6	(460)
Ending "period" cash and cash equivalents	20,716	38,088	30,593	21,172	19,526

Source: Consolidated audited financial statements

Net income increased by 1,883 million Saudi Riyals over the period commencing 1 January 2011G to 31 December 2013G (to reach 7,989 million Saudi Riyals), mainly driven by an increase in special commission income from Group loans portfolio growth over the period.

Adjustments for non-cash items mainly relate to the cancellation of non-cash impairment charges on loans and investments.

Change in operating assets and liabilities negatively impacted net cash from operating activities during the financial year 2013G (decrease of 4,541 million Saudi Riyals), primarily due to:

- a 4,714 million Saudi Riyals increase in statutory deposits with SAMA and cash balances with banks and other financial institutions;
- a 29,681 million Saudi Riyals growth in the Group's loans portfolio;
- a slowdown of customer deposits growth (increase of 30,833 million Saudi Riyals during the financial year 2013G compared to 32,884 million Saudi Riyals in the financial year 2012G); and
- a stable level of bank and financial institutions borrowings.

Net cash from investing activities fluctuated over the period commencing 1 January 2011G to 31 December 2013G reflecting the different asset allocation strategies adopted by the Treasury Group department over the period (refer to the Investments section of this report for further detail).

Net cash from financing activities remained relatively stable over the period reflecting the constant dividend policy adopted by NCB (1.8 Saudi Riyals per share).

Net cash flow from operating activities increased to 22,517 million Saudi Riyals over the first half of the financial year 2014G, largely driven by an increase of customers' deposits over the period.

6 – 8 Capitalization and Indebtedness

The following financial information has been prepared in accordance with Basel III and sets forth the Company's short- and long-term debt and capitalisation as at 30 June 2014G. Prospective Subscribers should read the information presented in the following table together with the Financial Statements, section 6 - "*Management Discussion and Analysis of Financial Condition and Results of Operations*" and the "*Summary of Financial Information*" section starting on page xix.

Table 6-51 Short- and Long-Term Company Debt and Capitalization as of 30 June 2014G

In thousands (SAR)	31 December 2011G	31 December 2012G	31 December 2013G	30 June 2014G
Short-term liabilities	None	None	None	176,156
Long-term liabilities	None	None	1,511	9,325,558
Total liabilities	None	None	1,511	9,501,714
In millions (SAR)				
Capital	15,000	15,000	15,000	20,000
Treasury shares	(177)	(177)	(177)	(191)
Legal reserve	12,105	13,624	15,103	15,103
Other reserves (accumulated changes in the fair value)	1,918	1,857	1,354	1,712
Retained earnings	5,227	7,051	9,699	7,976
Proposed profit distributions	1,496	1,496	1,646	1,596
Foreign currency difference reserves	(1,404)	(1,147)	(1,691)	(1,589)
Non-controlling interests	1,420	1,700	1,602	1,747
Total shareholder rights	35,585	39,404	42,536	46,354

In thousands (SAR)	31 December 2011G	31 December 2012G	31 December 2013G	30 June 2014G
In millions (SAR)	Revised	Revised	Revised	Revised
Credit risks	169,733	203,732	226,641	259,985
Operational risks	22,108	22,209	24,480	25,632
Market risks	7,810	6,157	5,708	7,007
Assets at risk: Pillar 1	199,651	232,098	256,829	292,624
Basic capital (Tier 1)	34,318	38,199	41,630	45,344
Capital cushions (Tier 2)	2,009	2,462	2,376	7,668
Basic capital and cushions (first and second tranches)	36,327	40,661	44,006	53,012
Capital adequacy ratio	18.2%	17.5%	17.1%	18.1%
Minimum according to Basel III (%)	8.0%	8.0%	8.0%	8.0%
Minimum according to Basel III (SAR)	18,212	20,504	22,815	23,572

Source: NCB

7. DIVIDEND POLICY

It is the intention of the Company to make dividend payments to its Shareholders with a view to maximising Shareholders' value, depending on the Company's income, its financial position, market conditions, general economic conditions, and other factors, including analysis of available investment opportunities and reinvestment needs, cash and capital needs, business prospects, as well as other legal and regulatory considerations. Dividends will be distributed in Saudi Riyals.

Although the Company intends to pay annual dividends to its Shareholders, it does not make any assurance that any dividends will actually be paid nor any assurance as to the amount, which will be paid in any given year. The distribution of dividends is subject to certain limitations contained in the Company's Bylaws.

Article 41 of the Bylaws provides that, after deducting all general costs, potential loss provisions and other costs, the Company's annual net profits (on the recommendation of the Board and with the approval of the General Assembly) shall be allocated as follows:

1. 25% of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the General Assembly when said reserve equals the Company's capital.
2. Out of the balance of the profits, Shareholders shall be paid an initial payment of not less than 5% percent of the paid-up capital. In the event that the net profits are insufficient to pay this distribution, the Shareholders will not be entitled to demand that such amount be paid out of the profits of a future year.
3. The balance shall be provisioned to remuneration to the Board pursuant to the instructions issued by SAMA in this regard.
4. The balance thereafter shall be used, upon the recommendation of the Board, to create an additional reserve, to distribute as an additional distribution of profit among Shareholders or for any other purpose resolved upon by the General Assembly.

Approved dividends shall be paid in the location and at the date determined by the Board. The Company may withhold the payment of any dividend due to a Shareholder for such amount to be used in the fulfilment of any debt or other obligations owed to the Company (No share of dividends has previously been withheld).

By resolution dated 28/03/1435H (corresponding to 29 January 2014G), the Board resolved to distribute 2,842 million Saudi Riyals in cash dividends to NCB's Shareholders, equivalent to an amount of 1.9 Saudi Riyals per Share (representing 19% of the nominal value per Share), for the financial years ended 31 December 2013G. The Extraordinary General Assembly held on 30/5/1435H (corresponding to 31 March 2014G) approved such dividend distribution.

The following table sets out a summary of dividend distributions made by NCB in each of the 2011G, 2012G and 2013G financial years:

Table 7-1 Summary of Dividend Distributions made by NCB in each of the Financial years ending 31 December 2011G, 2012G, 2013G and 2014G

Description*	2011G (SAR in millions)	2012G (SAR in millions)	2013G (SAR in millions)	2014G (SAR in millions)
Declared Dividend	2,693	2,693	2,842	1,596
Cash Dividend Distribution	2,693**	2,693***	2.693****	1,596*****
Share Dividend Distribution	SAR1.8	SAR1.8	SAR1.9	SAR0.8

Source: NCB

* Treasury Shares do not accrue or receive dividends.

**In 2011G, the Bank distributed cash dividends totalling 2,693 million Saudi Riyals, in the amount of 1,496 million Saudi Riyals for the year 2010G and a sum of 1,197 million Saudi Riyals as interim dividends approved for the year 2011G.

***In 2012G, the Bank distributed cash dividends totalling 2,693 million Saudi Riyals, in the amount of 1,496 million Saudi Riyals for the year 2011G and a sum of 1,197 million Saudi Riyals as interim dividends approved for the year 2012G.

****In 2013G, the Bank distributed cash dividends totalling 2,693 million Saudi Riyals, in the amount of 1,496 million Saudi Riyals for the year 2012G and a sum of 1,197 million Saudi Riyals as interim dividends approved for the year 2013G.

***** In 2014G, the Bank distributed cash dividends totalling 1,596 million Saudi Riyals, as dividend for the first half of 2014G.

The dividends in 2011G, 2012G, and 2013G were based the Company's share capital at the time, which was 15,000 million Saudi Riyals. Starting from 2014G, dividends are based on the Bank's share capital of 20,000 million Saudi Riyals following the increase in share capital by 5,000 million Saudi Riyals that occurred during 2014G.

Members of the Board of Directors confirm that there have not been any dividends announced or distributed beyond those cited in this section, as of the date of this Prospectus.

8. USE OF PROCEEDS AND EXPENSES

The total proceeds from the Subscription are estimated at Twenty two billion and five hundred million (22,500,000,000) Saudi Riyals, of which an estimated amount of twenty five million (25,000,000) Saudi Riyals will be applied towards the aggregate expenses of the Subscription, which include the fees of the Financial Advisers, the Lead Managers, the legal adviser, the financial due diligence adviser, the Receiving Agents and marketing and printing and distribution fees and expenses, as well as other fees related to the Subscription.

The net proceeds of the Subscription after the deduction of the expenses described above are estimated at twenty two billion and four hundred and seventy five million (22,475,000,000) Saudi Riyals, which will be distributed to the Selling Shareholder. The Company will not receive any part of the proceeds from the Subscription.

9. DIRECTORS, SENIOR EXECUTIVES AND SECRETARY OF THE BOARD DECLARATIONS

The Directors, Senior Management and the Secretary of the Board declare the following:

- they have not at any time been declared bankrupt or been subject to bankruptcy proceedings;
- they have not been employed in a managerial or supervisory capacity of a company which has become insolvent in the five years preceding the date of this Prospectus;
- with the exception of the information on p. 218 of this Prospectus, neither they nor any of their Relatives have any shares, interests, or dealings whatsoever in the Company or its subsidiaries.
- there has been no interruption in the work of the Company or any of its subsidiary companies that could affect or have a significant impact on the financial situation over the past 12 months;
- no discounts, commissions, brokerage fees or any other non-cash compensation has been given by the Company or any of its subsidiaries during the three years immediately preceding the date of filing the registration application and acceptance of listing, with respect to the issuance or availability of any securities;
- there has been no material adverse change in the financial position and business of the Company or any of its subsidiaries during the three years immediately preceding the date of filing the registration application and acceptance of listing, in addition to the period covered by the chartered accountants' report until the adoption of the Prospectus;
- other than as set out on page 201 of this Prospectus, the Directors do not have any shareholding, interest or debt instruments of any kind in NCB or its subsidiaries, and nor does any Relative of theirs;
- they are in compliance with the provisions of Articles 69 and 70 of the Companies Regulations and the relevant provisions of the Corporate Governance Rules;
- they may not vote on a contract or proposal in which they have an interest;
- Directors are not entitled to borrow from NCB other than in accordance with applicable rules and guidelines, including the guidelines of SAMA, and the Directors shall comply with such rules and guidelines;
- up to the date of this Prospectus, they do not contemplate any material change in the nature of the Group's business;
- NCB has working capital that is sufficient for 12 months following the date of this Prospectus;
- there is no existing scheme to allocate shares to NCB's employees up to the date of this Prospectus;
- there are no other arrangements enabling NCB's employees to participate in NCB's share capital;
- the Company and its subsidiaries adhere to the items on funding agreements (as a borrower) and comply with the laws regulating bank borrowing and lending processes; and
- the Company and its subsidiaries have sufficient insurance to protect them from any event that could have a material adverse effect.

The Company has, by itself directly or through one or more of its subsidiaries, pursued its principal activities throughout the previous three fiscal years at least under management supervision which has not witnessed material change.

The Directors declare the following:

- there has not been any commission, discount, brokerage or other non-cash compensations granted within the three years immediately preceding the application for registration and admission to the listing in connection with the issue or offer of any securities by NCB;
- there has not been any material adverse change in the financial or trading position of NCB or its subsidiaries in the three financial years preceding the application for registration and admission to listing up to and including the date of approval of this Prospectus;
- they do not compete with any of the Group's businesses and that they will comply with such statutory requirements in accordance with Article 70 of the Companies Regulations and Article 18 of the Corporate Governance Regulations;
- none of the Substantial Shareholders owns or manages a business that competes with the current business of NCB, being the establishment, ownership and management of banks or financial institutions; and

- all related party transactions will be made on a competitive basis and all contracts with related parties will be voted on in the meetings of the Board and the General Assembly with the relevant Board member who has a direct or indirect interest in the contracts being voted on in the Board meeting or the General Assembly refraining from voting in accordance with Article 69 of the Companies Regulations and Article 18 of the Corporate Governance Regulation.

10. LEGAL INFORMATION

10 – 1 Summary of the Company's Bylaws

This summary should be read as an introduction to, and is qualified in its entirety by reference to, the Bylaws which are available for inspection at the Company's head office until the completion of the Subscription (see section 13 - "*Documents Available For Inspection*").

10 – 1 – 1 Name of the Company

The name of the Company is "The National Commercial Bank", a Saudi joint stock company.

10 – 1 – 2 Headquarters

The head office of the Company is in the city of Jeddah. The Company may establish branches or offices or agencies for the Company within or outside the Kingdom.

10 – 1 – 3 Objects of the Company

The Company was established to undertake banking and investment activities for its own account, and for the account of others, within or outside the Kingdom. The objects of the Company include, amongst others:

- opening current accounts and accepting cash deposits;
- paying cheques and orders issued by depositors with the Company in Saudi Riyals and other currencies;
- opening and managing investment accounts in Saudi Riyals and other currencies for the purpose of receiving returns;
- borrowing funds and issuing debt securities, with or without recourse;
- providing advisory and consultancy services on investments;
- acting as the investment manager of funds;
- withdrawing, issuing, accepting, discounting, buying, selling and collecting financial and commercial instruments and securities of all types, including transfer or bills of lading, deposit instruments, debt instruments and other commercial instruments or financial securities;
- dealing with, holding, buying and selling metals, precious metals, metal coins and foreign currency;
- providing bank facilities (including revolving credit facilities), with or without guarantees or the mortgage of tangible and intangible assets;
- providing savings and term deposit accounts in Saudi Riyals and other currencies;
- supporting and issuing guarantees and warranties;
- issuing letters of credit and travellers cheques;
- owning and holding shares, funds, tradable debt instruments, syndicated loans and debt obligations and commercial paper and various investments;
- dealing with, purchasing or selling tradable debt instruments, share certificates or other commercial paper;
- acting as an agent for governments or local authorities or any natural or juristic person and undertaking agency activities of any kind;
- supporting the issuance of any government debt or any other debt, public or private shares, shares in an LLC or any shares or debt instruments related to any company or entity;
- supporting similar businesses to the Company for any person or company merging with it or acquiring or possessing all or parts of its assets and supporting joint stock companies and underwriting in their shares;
- managing, selling, mortgaging, using and holding real estate and dealing in any tangible or intangible assets that may come into the Company's possession;
- undertaking the management of real estate as executors or custodians or agents or any other capacity;

- constructing and managing customs warehouses or storage facilities to store commercial or industrial goods and to lend funds for their construction and management;
- establishing subsidiary companies or purchasing existing companies and the participation in companies or entities or bodies that are related to the Company's purposes or support their achievement in the Kingdom or otherwise; and
- undertaking any other activities not restricted under banking and monetary regulations applicable in the Kingdom and all other work that may assist it with the achievement of these purposes in accordance with the applicable regulations.

10 – 1 – 4 Duration of the Company

The term of the Company shall be 99 Hijri years commencing from 26/2/1418H (corresponding to 1 July 1997G). The term of the Company may always be extended by a resolution issued by the Extraordinary General Assembly at least one year prior to the expiration of its term.

10 – 1 – 5 Share Capital

The Company's issued and paid up share capital is twenty billion (20,000,000,000) Saudi Riyals divided into two billion (2,000,000,000) Shares of equal value with a nominal value of ten (10) Saudi Riyals each. Each Share provides equal rights and obligations to the Shareholders.

10 – 1 – 6 Unpaid Value of Shares

If a Shareholder fails to pay the value of a Share when it falls due, the Board may, after giving such Shareholder notice by registered mail sent to his address specified in the Shareholders' Register, sell such Shares in a public auction. Nevertheless a defaulting Shareholder may, up to the date fixed for the public auction, pay the outstanding value of the Share plus all expenses incurred by the Company. The Company shall recover from the proceeds of the sale such amounts as are due to it and shall refund the balance to the Shareholder. If the proceeds of the sale fall short of the amounts due, the Company shall have a claim on the assets of the Shareholder for the unpaid balance. The Company may cancel the Share sold and issue to the purchaser a new share certificate bearing the serial number of the cancelled Share, and make a notation to that effect in the Shareholders' Register.

10 – 1 – 7 Registered Share Value

The Shares shall be registered shares and may not be issued at less than their nominal value. However, the Shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the statutory reserve, even if the reserve has reached its maximum limit. A Share shall be indivisible vis-à-vis the Company. In the event that a Share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the Share, and they shall be jointly responsible for the obligations arising from the ownership of the Share.

10 – 1 – 8 Transferability of Share Ownership

All the Shares are transferable. The registered Shares shall be transferred by registration in the Shareholders Register. No transfer of Shares may be entered into the Shareholders Register during the period between the date of the announcement of a General Assembly and the date of the conclusion of such meeting.

Successive Shareholders shall be jointly liable for amounts due, if any, until their fulfilment. With the exception of the final Shareholder, any prior Shareholders shall have such liabilities discharged one year from the entry of the final Shareholder's name in the Shareholders Register.

The ownership of and subscription to the Shares by a Shareholder shall mean the acceptance by the Shareholder of the By-Laws and his submission to the resolutions duly passed by the General Assemblies in accordance with the By-Laws, whether the Shareholder was present or absent and whether the Shareholder agreed to such resolutions or objected to them.

10 – 1 – 9 Share Certificates

The Company shall issue share certificates with serial numbers. The share certificates shall be signed by two members of the Board and stamped with the Company's seal. The share certificate shall, in particular, show the number and date of the Council of Ministers Resolution authorising the conversion of the Company to a joint-stock company, the number and date of the Council of Ministers Resolution announcing the conversion of the Company, value of the capital, number of Shares to which the capital is distributed, the characteristics of the Shares, Company objects, head office and term**.**

10 – 1 – 10 Increase of Share Capital

The Extraordinary General Assembly may resolve to increase the Company's capital once or more provided that the original capital shall have been paid up in full. Such resolution shall specify the manner in which the capital shall be increased.

The Shareholders shall have pre-emptive rights to subscribe for the new shares. The existing Shareholders shall be notified of the pre-emptive rights vested in them by a notice to be published in a daily newspaper. Each such Shareholder shall express the desire to exercise such pre-emptive rights, if they so wish, within 15 days of the publication of such notice.

The said new shares shall be allotted to the original Shareholders who have expressed their desire to subscribe thereto, in proportion to the original shares owned by them, provided that the number of new shares allotted to them shall not exceed the number of new shares they have subscribed for. The remaining new Shares shall be allotted to the Shareholders who have asked for more than their proportionate share, in proportion to the original Shares they own, provided that their total allotment does not exceed the number of new Shares they have asked for. Any remaining new Shares shall be offered for public subscription.

10 – 1 – 11 Decrease of Share Capital

The Extraordinary General Assembly may resolve to reduce the Company's capital if it proves to be in excess of its needs or if the Company has incurred losses, provided that the share capital of the Company shall not fall below the minimum share capital set forth in the Banking Control Law. Such resolution shall not be adopted except after considering the auditor's report on the reasons for such a reduction, with due consideration to the provisions of the Companies Regulations.

The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to it being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within 60 days from the date of publication of the reduction resolution in at least one daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

10 – 1 – 12 Bonds

The Company may, by decision of the General Assembly in an ordinary meeting, issue loans evidenced by bonds of equal value that are tradable and non-divisible.

10 – 1 – 13 Board of Directors

The Company shall be managed by a Board consisting of nine members to be appointed by the General Assembly for a term not exceeding three years. A board member may be re-appointed at the conclusion of their term.

10 – 1 – 14 Qualification Share

Each member of the Board shall hold shares with a nominal value of no less than ten thousand Saudi Riyals (10,000 Saudi Riyals). Such shares shall be deposited in a bank designated by the Minister of Commerce and Industry within thirty (30) days from the date of the appointment of the director. Such shares shall be kept aside to guarantee the liability of the Board members and shall remain non-tradable until the expiry of the period specified for hearing a liability action provided for under Article 77 of the Companies Regulations or until a judgment is passed on said action. Should a member of the Board of Directors fail to submit such qualification shares within the period specified therefore, his membership in the Board shall be deemed null and void.

10 – 1 – 15 Membership of the Board of Directors

No person shall be appointed as a Director if he/she is also the member of a Board of Directors of any company in the Kingdom who undertakes a similar business to the Company or has similar objects. A Director's membership of the Board shall be terminated upon the expiry of the Board's term, on the Director's resignation or death or if he is declared bankrupt, insolvent or requests a settlement with his creditors. A Director's membership of the Board will also be terminated if he is no longer of sound mind or is convicted of a crime of dishonesty, fraud or moral turpitude.

If the seat of Board member becomes vacant, the Board may appoint a temporary member from its Shareholders to replace him, provided that such appointment shall be laid before the next General Assembly. The term of office of the new member designated to fill a vacancy shall only extend to the term of office of his predecessor.

If the number of the members of the Board falls below five, the General Assembly shall be called for an Ordinary Meeting as soon as possible in order to appoint the necessary number of Board members.

10 – 1 – 16 Powers and Duties of the Board

Without prejudice to the powers conferred on the General Assembly, the Board shall be vested with full powers to manage the business of the Company. The Board may, within the limits of its authority, delegate to one or more of its members or to non-members to perform any of its duties. The Board may also delegate to any entity or consultancy inside or outside the Kingdom to perform its duties. Generally, the board may undertake all actions except those expressly reserved for the General Assembly. The right to sign on behalf of the Company is severally held by each of the Chairman, the Managing Director and any other member empowered for such purpose. The Board may also appoint several mangers or attorneys and authorise them to sign on behalf of the Company jointly or severally. The Board has the broadest powers to enter into loan agreements, discharge the Company's creditors from their obligations, enter into settlements, purchase, sell and mortgage the properties of the Company for whatever purpose, including the property necessary for carrying on the bank business or for the accommodation and welfare of its employees while complying with the provisions of paragraph 5 of Article 10 of the Banking Control Law.

10 – 1 – 17 Remuneration of the Board Members

Remuneration of the members of the Board shall be determined by a General Assembly in accordance with the applicable SAMA regulations. The Company shall reimburse the members of the Board for all actual expenses incurred in connection with attending meetings of the Board or the executive committee, including travel and accommodation expenses.

The report of the Board to the General Assembly shall include a comprehensive statement of the salaries, bonuses, attendance allowances, expenses and the other benefits received by the Board's members in the fiscal year, as well as a statement of all amounts received by the Board's members in their capacity as employees or administrators, or for doing any technical or administrative works.

10 – 1 – 18 The Chairman and Managing Director

The Board shall appoint one of its members as Chairman and the Board may appoint from among its members a Managing Director. A member can occupy the office of both the Chairman and the Managing Director. The Board may appoint a non-Board member as the General Manager of the Company.

The Board shall set forth the powers and authorities of the Managing Director and the General Manager and their remuneration. The Board shall appoint a non-board member as the Secretary of the Board and fix the secretary's authorities. The term of the office of the Chairman and Managing Director shall not exceed their respective term of service as Directors.

10 – 1 – 19 The Executive Committee

The Board shall form an Executive Committee from amongst its members comprised of five members, one of whom must be the Managing Director, who will be chair of the Executive Committee meetings. The Executive Committee shall address matters arising between meetings of the Board within the powers granted to it by the Board. The Executive Committee shall hold at least one meeting per month and more frequently if decided by the chair of the Executive Committee.

The decisions of the Executive Committee shall be by a majority vote of its members and in the event of a tie-vote, the chair of the Executive Committee shall have the deciding vote. The Executive Committee does not have the power to change any of the resolutions, guidelines, or regulations issued by the Board.

The quorum for a meeting of the Executive Committee is four members, either in person or by proxy, provided that at least three members are attending in person. A member of the Executive Committee may attend and vote on behalf of another member of the Executive Committee, provided that no single member may attend on behalf of more than one other member.

10 – 1 – 20 Board Meetings and Board Resolutions

Invitation

The Board shall meet at least twice a year upon the invitation of the Chairman sent along with the meeting agenda prior to the meeting. The Chairman shall convene a Board meeting if so requested by any two members of the Board and without being subject to any notice term. The invitation must be addressed in writing to each Director before the date of the meeting.

The Chairman may name a minimum of two members in the first meeting under his term who may call a meeting if necessary in the event that the Chairman cannot attend for reasons beyond his control.

Quorum

A meeting of the Board shall be duly convened if attended by at least five members of the Board. A member of the Board may give a proxy to another member to attend the Board meetings on his behalf, but a member of the Board may not act on behalf of more than one other Board member.

Resolutions

Board resolutions shall be adopted with the approval of the majority vote of the members present or represented. In case of a tie-vote, the Chairman of the Board or his proxy shall have a casting vote. The Board may adopt its resolution by circulation unless one Board member requests in writing a meeting for deliberations on such a resolution. If a resolution is adopted by circulation, such Resolutions shall be submitted to the Board in its first meeting in order to be recorded in the official minutes of that meeting.

Meeting Minutes

The meetings of the Board shall be memorialised in meeting minutes signed by all the present members, and such minutes shall be kept in a special register signed by the Chairman of the board and the Secretary.

10 – 1 – 21 Disclosure of Personal Interests

A Board member may not have any direct or indirect interest in the dealings of the Company, including any contracts entered into by the Company, except on authorisation from the General Assembly which must be renewed annually. No such authorisation is necessary for contracts entered into through a public tender process on the condition that the Board member provided the best bid.

Any member of the Board having a personal interest, whether direct or indirect, in any matter or proposal made to the Board or Executive Committee must declare the nature of such interest in the proposed matter to the Board or the Executive Committee. The interested Board member shall not participate in the deliberation or voting on such resolution.

10 – 1 – 22 Liability

The Company may file a claim for liability against the members of the Board for any errors that resulted in losses to all the Shareholders. The General Assembly shall approve the filing of such a claim. Each Shareholder may file the claim for liability that is permitted to be filed by the Company against its Board, if the error committed resulted in damages that effected such Shareholder, however, the Company retains the right to bring a claim itself and the effected Shareholder must notify the Company in writing of his/her/its intention to bring a claim.

10 – 1 – 23 Shareholders General Assembly

A General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located.

Any Shareholder holding 20 Shares or more has the right to attend the General Assembly and may authorise in writing another Shareholder, other than the members of the Board, to attend the General Assembly on his/her behalf.

Ordinary General Assembly

Except for matters falling within the jurisdiction of an Extraordinary General Assembly, a General Assembly shall be competent to deal with all other matters related to the Company and shall be convened at least once a year during the first six months following the end of the Company's financial year. Other General Assembly meetings may be called where necessary. Particularly, it shall be convened to ratify the Company's balance sheet and profit and loss account, to appoint NCB's auditors and fix their remuneration, and to elect the Board where necessary.

Extraordinary General Assembly

An Extraordinary General Assembly of Shareholders shall be competent to amend the provisions of the Bylaws, other than those provisions whose amendment is prohibited by law. Furthermore, an Extraordinary General Assembly shall be empowered to adopt resolutions increasing or decreasing capital, amending the term of the Company, its merger or dissolution, and resolutions in matters within the jurisdiction of the General Assembly under the same conditions and manners as prescribed for the latter.

Manner of Convening General Assemblies

The General Assembly shall be convened by an invitation by the Board. The Board shall be required to convene a meeting of the General Assembly if requested to do so by the Auditors or by a number of Shareholders representing at least 5% of the Company's capital. The notice shall be published in the Official Gazette and in at least one daily newspaper circulated in the city where the Company's head office is located at least 25 days prior to the date set for such meeting. The notice shall include the agenda of the meeting.

Record of Attendance

When a General Assembly convenes, a list shall be prepared of the names and residence addresses of the Shareholders present or represented therein, showing the number of shares held by each, whether personally or by proxy, and the number of votes allotted thereto. Any interested party shall be entitled to examine such list.

Quorum of the General Assembly

A meeting of the General Assembly shall not be valid unless attended by Shareholders representing at least 50% of the Company's share capital. If such quorum cannot be attained in the first meeting, a second meeting shall be held within 30 days of the date of the first meeting. The second meeting shall be deemed valid, irrespective of the number of Shares represented therein.

Quorum of the Extraordinary General Assembly

A meeting of the Extraordinary General Assembly shall not be valid unless attended by Shareholders representing at least 50% of the Company's share capital. If such quorum cannot be attained in the first meeting, a second meeting shall be held within 30 days of the first meeting. The second meeting shall be deemed valid if attended by a number of Shareholders representing at least 25% of the Company's share capital.

Board Presence

The Board must be presented at the General Assembly by a number of Board members that is not less than the number of Board members necessary for a quorum of a Board meeting. In any case, the Chairman of the Board, the Manager Director, or their nominee from the members of the Board must attend meetings of the General Assembly.

Voting Rights

Votes at the meetings of Ordinary and Extraordinary General Assemblies shall be computed based on one vote for each share represented at the meeting. Members of the Board shall not vote on resolutions of an Ordinary or Extraordinary General Assembly releasing the Board's members from liability during their term.

Resolutions

General Assembly shall be adopted by an absolute majority of the Shares represented thereat. Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two-thirds of the Shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's term, dissolving the Company prior to the expiry of the period specified under the Company's by-laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority of three-quarters of the Shares represented at the meeting.

The Right of Shareholders to Ask Questions at General Assemblies

Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the members of the Board. The members of the Board or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interests. If the Shareholder deems the answer to the question unsatisfactory, then he/it may refer the issue to the General Assembly and its decision in this regard shall be conclusive and binding.

Chairman of the General Assembly

The General Assembly shall be presided over by the Chairman of the Board, or the Managing Director, or in their absence, anyone designated by the Chairman.

The Chairman shall appoint a secretary for the meeting and two or more vote collectors, whose appointment should be ratified by the General Assembly. Minutes shall be written for the meeting which shall include the names of the Shareholders present in person or represented by proxy, the number of the shares held by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. The minutes shall be kept in a special record signed by the Chairman, the secretary and the vote collectors.

10 – 1 – 24 Appointment of Auditors

The Company shall have two auditors to be selected from among the auditors licensed to work in the Kingdom. The auditors term and compensation shall be fixed by the General Assembly. The General Assembly may reappoint the same auditors or change them.

10 – 1 – 25 Auditor Duties

The auditor must submit to the annual General Assembly a report showing how far the Company has enabled it to obtain the information and clarifications it has requested and what violations of the Companies Regulations and the Banking Control Law it has discovered and his opinion as to whether the Company's accounts accurately reflect the facts.

10 – 1 – 26 Financial Year

The Company's financial year shall begin on 1 January and end on 31 December each year.

10 – 1 – 27 Annual Reports

The Board shall prepare at the end of each fiscal year an inventory of the Company's assets and liabilities on such date, the Company's balance sheet and profit and loss account, a report on the Company's activities and its financial position for the preceding year. The report shall include the method proposed by the Board for the distribution of net profits for that financial year. The Board shall place such documents at the auditor's disposal at least 55 days prior to the date set for convening the General Assembly. Such documents shall be signed by the Chairman of the Board and a set thereof shall be available at the Company's head office for the Shareholders' review at least 25 days prior to the date set for convening the General Assembly. The Chairman of the Board shall publish the Company's balance sheet, profit and loss account, a comprehensive summary of the Board's report and the full text of the auditor's report in at least one newspaper circulated in the city where the Company's head office is located, and shall send copies of such documents to the Companies Department at the Ministry of Commerce and Industry at least 25 days prior to the date set for convening the General Assembly.

10 – 1 – 28 Distribution of Profits

After deducting all general expenses and other costs (including Zakat), the Company's annual net profits (after the approval of the Board and the General Assembly) shall be allocated as follows:

1. 25% of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the General Assembly when said reserve equals the Company's capital.
2. Out of the balance of the profits, Shareholders shall be paid an initial payment of not less than 5% of the paid-up capital. In the event that the net profits are insufficient to pay such a distribution, the Shareholders will not be entitled to demand that such amount be paid out of the profits of a future year.
3. The balance shall be provisioned to remuneration to the Board pursuant to the instructions issued by SAMA in this regard.
4. The balance thereafter shall be used, upon the recommendation of the Board, to create an additional reserve, to distribute as an additional distribution of profit among Shareholders or for any other purpose resolved upon by the General Assembly.

Notwithstanding the above, the General Assembly may not resolve to distribute any Share of profits in excess of the recommendation of the Board.

10 – 1 – 29 Place and Time of Payment of Dividends

The profits that are resolved to be allocated to Shareholders shall be paid up at the place and time specified by the Board. The Company may withhold the payment of any dividend due to a Shareholder if such Shareholders owes a debt or other obligation to the Company.

10 – 1 – 30 Dissolution of the Company

If the total of the Company's losses amount to three-quarters of its capital, the Board shall call the Extraordinary General Assembly for a meeting to consider whether the Company shall continue to exist or dissolve prior to the expiry of its term.

Should the General Assembly resolve to dissolve the Company prior to the conclusion of its term for this reason, for any other reason or for the conclusion of the Company's term, the General Assembly at an extraordinary meeting and upon the recommendation of the Board, shall agree to the form of liquidation, the appointment of a liquidator or more and the determination of their authorities and their remuneration.

10 – 2 Establishment of the Company

In 1358H (1939G), Mr. Saleh Moussa Kaki, Mr. Abdulaziz Mohammed and Mr. Salim Ahmed Bin Mahfouz opened a currency exchange office. On 5/9/1369H (corresponding to 21 June 1950G). That office was then converted to a partnership among them in the name of "Saleh & Abdulaziz Al Kaki and Salem Bin Mahfouz" under registration certificate No. 48 ratified by Royal Decree dated 7/28/1369H (corresponding to 16 May 1950G) and under the instrument number 788 issued by the Mecca Notary Public and dated 9/5/1369H (corresponding to 21 June 1950G). The Company's articles of association were amended and the Company's name changed to become the "National Commercial Bank", as recorded before the Mecca Notary Public under number 1063 as of 8/8/1374H (corresponding to 1 April 1955G). The Company operated as a partnership registered in the Jeddah trade register under registration number 4030001588 dated as of 27/12/1376H (corresponding to 25 July 1957G) until it was converted into a Saudi joint stock company on 1 July 1997G by Royal Decree No. M/19 dated 23/11/1417H (corresponding to 31 March 1997G) and Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G) and registered under commercial registration No. 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G). NCB's head office is in Jeddah, Kingdom of Saudi Arabia.

10 – 3 Capital Structure

NCB's current capital is twenty billion (20,000,000,000) Saudi Riyals comprising two billion (2,000,000,000) Shares with a nominal value of ten (10) Saudi Riyals each. It should be noted that the Subscription solely involves existing Shares and so there will be no change to the issued share capital of NCB as a result of the Subscription. All Shares are fully paid up. At the date of NCB's conversion to a Saudi Joint Stock Company on 1 July 1997G, the incorporators who signed the Memorandum of Association of NCB subscribed for sixty million (60,000,000) Shares with a nominal value of 100 Saudi Riyals per share in the capital of NCB, with a value of six billion (6,000,000,000) Saudi Riyals.

On 25/2/1427H (corresponding to 25 March 2006G), NCB's Extraordinary General Assembly approved the increase of NCB's Share capital from six billion (6,000,000,000) Saudi Riyals to nine billion (9,000,000,000) Saudi Riyals. The increase in share capital was funded by transferring funds from reserves to paid up capital.

On 7/3/1428H (corresponding to 26 March 2007G), NCB's Extraordinary General Assembly approved the increase of NCB's Share capital from nine billion (9,000,000,000) Saudi Riyals to fifteen billion (15,000,000,000) Saudi Riyals. The increase in share capital was funded by transferring funds from reserves to paid up capital.

On 30/05/1435H (corresponding to 31/3/2014G), NCB's Extraordinary General Assembly approved the increase of NCB's share capital from fifteen billion (15,000,000,000) Saudi Riyals to twenty billion (20,000,000,000) Saudi Riyals through the issuance of one bonus Share for each three Shares owned by current Shareholders as at 30/05/1435H (corresponding to 31 March 2014G), with fractional Shares being consolidated and sold to Shareholders. Article 6 of the Bylaws was amended accordingly. The increase in share capital was funded by transferring 5,000,000,000 Saudi Riyals from retained earnings as of 31 December 2013G. As of 17 August 2014G, all fractional shares were aggregated (resulting in 69 Shares) and sold, with the proceeds of the sale distributed to Shareholders who owned fractional shares in an amount proportional to their ownership in NCB's share capital.

10 – 4 Shareholding Structure

The table below sets out the details of NCB's Shareholders showing their respective ownership percentages in NCB's issued share capital as at the date of this Prospectus and after the Subscription:

Table 10-1 NCB's Shareholders' respective ownership percentages in NCB's issued share capital as at the date of this Prospectus and after the Subscription:

	Number of Shares*****		Percentage of Ownership******	
	Pre-Subscription	Post- Subscription	Pre- Subscription	Post- Subscription
PIF*	1,385,893,333	885,893,333	69.29%	44.29%
GOSI*	200,000,000	200,000,000	10.00%	10.00%
PPA**	874,765	200,874,765	0.04%	10.04%
Saudi individuals ***	376,774,382	676,774,382	18.84%	33.84%
Saudi companies and institutions****	36,457,520	36,457,520	1.82%	1.82%
Total	2,000,000,000	2,000,000,000	100.00%	100.00%

* Denotes Substantial Shareholders for the purpose of the Listing Rules.

** Two hundred million (200,000,000) of the Subscription Shares, representing 10% of NCB's share capital will be allocated for direct subscription by the PPA at the Subscription Price.

*** None of whom owns a share that equals 5% or more.

**** None of whom owns a share that equals 5% or more, and these Shares include the Treasury Shares.

***** These Shares include Qualification Shares.

****** Although the number of shares in the table above is accurate, rounding the percentage of ownership to two decimal places results in a total of 99.99%.

10 – 5 Subsidiaries

10 – 5 – 1 NCBC

NCBC is a Saudi Arabian closed joint stock company with commercial registration number 1010231474 issued on 26/03/1428H (corresponding to 14 April 2007G). NCB Capital's head office is located in Riyadh with a local branch in Jeddah and a foreign branch in Bahrain. In line with new requirements promulgated at the time by the CMA, in April 2007G, NCB transferred its wealth management, asset management, brokerage and investment banking activities to NCB Capital. NCBC's paid-up capital is 1,000,000,000 Saudi Riyals divided into 100,000,000 shares of equal value of 10 Saudi Riyals each.

As at 30 June 2014G, NCBC's shareholding structure is as follows:

Table 10-2 As at 30 June 2014G, NCBC's shareholding structure is as follows:

Name	Nationality	Number of Shares	Shareholding
Abdulkareem Abu Alnasr*	Saudi	1,000	0.001%
The National Commercial Bank	Saudi Company	90,703,060	90.71%
Faisal Al Sakkaf*	Saudi	1,000	0.001%
Hany AlShuwaier*	Saudi	1,000	0.001%
BACO W.L.L.	Bahraini Company	9,287,940	9.287%

Source: NCB

* These individuals hold shares in their capacity as founding Shareholders of NCBC. NCBC is currently in the process of transferring such shares to NCB.

BACO W.L.L. is a limited liability company established in Bahrain that owns 9.2879% of NCBC. BACO is a vehicle that holds NCBC shares for eligible employees of NCBC under the terms of a share incentive plan operated by NCBC. After obtaining the necessary approvals, BACO may in the future purchase 5,712,060 NCBC shares from NCB in connection with the share incentive plan. This will result in BACO owning 15% of the issued share capital of NCBC.

10 – 5 – 2 TFKB

TFKB is incorporated in Turkey as a joint stock company registered under commercial registration number 401492 on 19 December 1983G. As at 30 June 2014G, TFKB's share capital is TL 1,775,000,000.

As at 30 June 2014G, TFKB's shareholding structure is as follows:

Table 10-3 TFKB's shareholding structure

Name	Number of Shares	Number of Shareholders	Shareholding
NCB	1,176,369,401	1	66.2743%
Boydak Group	392,123,148	35	22.0914%
Gozde Girisim Sermayesi Yatırım Ortaklıgı AS (Ulker Group)	205,405,382	1	11.5721%
Other Shareholders	1,102,069	103	0.0621%

Source: NCB

10 – 5 – 3 REDCO

REDCO is a limited liability company registered in the Kingdom under commercial registration number 4030146558 on 21/11/1424H (corresponding to 4 January 2004G) with a share capital of 500,000 Saudi Riyals divided into 500 shares of equal value of 1,000 Saudi Riyals each. As at 30 June 2014G, NCB has a 100% ownership interest in REDCO. The objectives of REDCO primarily include buying real estate properties and apartments and owning the land for establishing and investing in the buildings by selling, developing or renting them for the company.

10 – 5 – 4 Eastgate

As at 30 June 2014G, NCB had a 64.73% indirect ownership interest in Eastgate, a UAE-domiciled private equity firm. Eastgate is a limited liability company registered in the Cayman Islands under commercial registration number WK/175021 on 27 May 2008G with an authorised share capital of US$10,000,000 (approximately 37,506,500 Saudi Riyals based on the exchange rate as at 30 June 2014), divided into 10,000 shares with a par value of US$1.00 each. NCBC has a 70% direct ownership in Eastgate. Eastgate's activities involve sourcing, structuring and investing in attractive private equity and real estate opportunities across global emerging markets, including the MENA region, Turkey and Asia.

10 – 5 – 5 ATC

ATC was established by NCB in December 2006G. ATC is a public Saudi joint stock company registered in the Kingdom under commercial registration number 4030171573 on 21/07/1428H (corresponding to 4 August 2007G) with a share capital of 166,666,670 Saudi Riyals, divided into 16,666,667 shares of equal value of 10 Saudi Riyals each. ATC is listed on the Tadawul and, following an initial public offering of ATC in December 2006G, NCB holds a 30% ownership interest in ATC. NCB is entitled to appoint three members of ATC's board of directors. ATC provides takaful insurance products and NCB has exclusive distribution rights in relation to these products in the Kingdom. ATC's market capitalisation as at 30 June 2014G was 983.3 million Saudi Riyals.

10 – 5 – 6 Commercial Real Estate Markets Company

As at 30 June 2014G, NCB has (60% ownership) interest in the Commercial Real Estate Markets Company, which is a company registered in the Kingdom under commercial registration number 4030073863 on 5/4/1411H (corresponding to 23 October 1990G) with a share capital of 1,600,000 Saudi Riyals. The purpose of this company is to own the commercial centre known as Jamjoum Center in Jeddah, and to maintain, manage and support that centre.

10 – 5 – 7 Al Ahli Insurance Services Marketing Limited Company

As at 30 June 2014G, NCB had (90% ownership) interest in Al Ahli Insurance Services Marketing Limited, which is a limited liability company registered in the Kingdom under commercial registration number 4030195150 on 21/12/1430H (corresponding to 8 December 2009G) with a share capital of 500,000 Saudi Riyals divided into 50,000 shares of equal value, the value of each share being 10 Saudi Riyals. The purpose of this company is to conduct agency services in relation to insurance for the purposes of marketing *Shari'ah* compliant insurance products and services in the Kingdom, and promoting Al Ahli Takaful's insurance products.

10 – 6 Summary of Material Contracts

There are no material contracts, other than contracts entered into in the ordinary course of business, to which NCB is a party which contain any provisions under which NCB has any obligation or entitlement which is material as at the date of this Prospectus.

10 – 7 Summary of Related Party Agreements and Transactions

In the ordinary course of its activities as a financial services provider, the Group transacts business with related parties, including, but without limitation, members of the Board and their immediate family. In the opinion of the Senior Management and the Board, the related party transactions are performed on an arm's length basis and in the ordinary course of business. The related party transactions conducted by NCB are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Except for the agreements discussed below, the agreements with the legal and financial advisors in connection with the Subscription, and relationships with Directors, Senior Management and their relatives in the ordinary course of business, NCB affirms that no other related party transactions exist.

NCB has entered into the following related party transactions with NCBC:

- NCB and NCBC entered into a service level agreement dated 1 December 2013G. The agreement was entered into for the provision of technical support and IT related services by NCB to NCBC. The agreement addresses the responsibilities and procedures to be followed by NCB and NCBC in order to ensure that NCBC's needs are met within expected levels of time, quality and outcome. The monthly fee payable for the provision of the IT services by NCB to NCBC is 2,250,000 Saudi Riyals, payable on a monthly basis. The fee shall be reviewed on a bi-annual basis with an exception of an additional review upon completion of NCBC's IT reintegration program. The agreement is valid from the effective date until the service level agreement is updated or terminated at the discretion of the parties.
- Two derivatives transaction were entered into between NCB and NCBC on 9 October 2013G with a maturity date on 3 October 2014G for a "One (1) Year Gold with Knockout" with a placed deposit of 3,738,641.25 Saudi Riyals and reference no. 68877 and a "One (1) Year Gold Wedding Cake Deposit" with a placed deposit of 3,738,641.25 Saudi Riyals and reference no. 68878.
- NCB and NCBC entered into an addendum dated 26 July 2010G to a lease agreement dated 1 May 2009G between NCB and NCBC on a commercial basis relating to NCBC's regional headquarters in Riyadh located in within NCB's headquarters in Riyadh. The addendum stipulates that the term of the lease is five years from 1 October 2009G until 1 October 2014G, to be automatically renewed on a commercial basis.

NCB has entered into the following related party transactions with TFKB:

- NCB provided to TFKB a shareholder loan of TL 935,865,000 (equivalent to about 1,651,333,79 Saudi Riyals based on the currency rate on 30 June 2014G) in 2012G.
- TFKB entered into a master murabaha agreement with Bank Islam Brunei Darussalam Berhad dated 2 November 2011G with a maturity date of 30 December 2016G for an amount of US$ 56,000,000

(equivalent to about 210,036,400 Saudi Riyals based on the currency rate on 30 June 2014G). The facility is counter-guaranteed by NCB through a guarantee dated 2 November 2011G as amended on 5 December 2011G with a maturity date of 60 days after all obligations of TFKB under the murabaha facility are paid in full. The original guarantee amount was US$ 75,000,000 (equivalent to about 281,298,750 Saudi Riyals based on the currency rate on 30 June 2014G) and the current guarantee amount is US$ 56,250,000 (equivalent to about 210,974,063 Saudi Riyals based on the currency rate on 30 June 2014G).

- NCB (as the investor) and TFKB (as the agent) have entered into a murabaha investment agreement dated 8 March 2011G. The purpose of the agreement is for the investment of NCB in commodity trade transactions through TFKB. The agreement covers transactions of maturities that range from 2014G to 2018G and loan amounts that range from US$ 5,000,000 to US$ 100,000,000 (equivalent to about 18,750,000 Saudi Riyals to 37,510,000 Saudi Riyals based on the currency rate on 30 June 2014G) with an aggregate total amount of US$ 518,000,000 (equivalent to about 1,942,836,700 Saudi Riyals based on the currency rate on 30 June 2014G).
- TFKB entered into a project financing line with the Islamic Development Bank on 19 October 2011G with a maturity date of 19 October 2014G in the amount of US$ 5,000,000 (approximately 18,803,250 Saudi Riyals based on the exchange rate as at 30 June 2014G) (the line amount per project not to be less than US$ 1,000,000 (approximately 3,760,650 Saudi Riyals based on the exchange rate as at 30 June 2014G) and more than US$ 10,000,000 (approximately 37,606,500 Saudi Riyals based on the exchange rate as at 30 June 2014G)). The facility is to be used for the benefit of small and medium enterprises (project companies) subject to agreements to be signed between such enterprises and the lender. NCB provided a guarantee dated 30 April 2012G with a maturity of 4 months after all obligations of TFKB under the facility are paid in full. The original guarantee amount was US$ 75,000,000 and the current guarantee amount is US$ 5,000,000.

NCB has entered into the following contracts with ATC:

(a) NCB has entered into an Agency Agreement with ATC and FWU AG dated 11 December 2011G for the provision and distribution of insurance services and products in the Kingdom. The parties have undertaken to establish a company, Al Ahli Marketing, for the distribution of *Shari'a* compliant life *takaful* products in the Kingdom. Pursuant to the agreement, Al Ahli Marketing shall be entitled to the payment of fees against the services to be provided by it under the agreement. The term of the agreement is ten (10) years from 11 December 2007G. The agreement shall be automatically renewed if not terminated earlier.

(b) NCB maintains the following insurance policies from ATC:

Table 10-4 Insurance Policies from ATC

Policy No.	Insurance Type	Expiry Date	Coverage
GRPTAK – 0001	Group life insurance	31 December 2014G	SAR 2,726,050,000
GRPTAK – 004	Group credits personal loans plan	31 December 2014G	SAR 42,000,000

10 – 8 Intellectual Property

Save for the "NCB – AlAhli" logo, which is a trademark registered with MOCI under number 142503427 on 30/02/1426H (corresponding to 25 February 2009G), the «عقار الأهلي» trademark as registered with MOCI under number 8/958, dated 11/11/1428H (corresponding to 21 November 2007G), the «الأهلي المالية» trademark registered with MOCI under number 949/28 dated 21/09/1428H (corresponding to 3 October 2007G),the «NCB Capital» trademark registered with MOCI under number 982/76 dated 03/25/1429H (corresponding to 2 April 2008G) and the «NCBC» trademark registered with MOCI under number 947/2 dated 09/07/1428 H (19 / 09/2007), and the «الأهلي كابيتال» trademark registered with MOCI under number 947/4 dated 07/09/1428H (19 September 2007G) registered on behalf of the bank, and the following trademarks: (1) «TÜRKİYE FİNANS KATILIM BANKASI «registered with the relevant Turkish authorities under number 2006-1434 on 18 January 2006G; (2) «TÜRKİYE FİNANS» registered with the relevant Turkish authorities under number 2006-1435 on 18 January 2006G; (3) «TÜRKİYE FİNANS LOGO» registered with the relevant Turkish authorities under number 38125-2012 dated 24 April 2012G registered in the name TFKB, there are no other trademarks, patents, copyright or other intellectual property rights which are material in relation to the Group's business or profitability.

10 - 9 Litigation and Disputes

In the ordinary course of its business, NCB may pursue debt collection and other litigation claims against third parties and may also have litigation claims filed against it. As part of NCB's debt collection process, NCB is involved, as at the date of this Prospectus, in routine legal proceedings against third parties and in litigation filed by third parties against it. However, none of this litigation is material or would have a material adverse effect, individually or in aggregate, on the business, results of operations, financial condition or prospects of NCB. Save as set out below, as far as the Directors and Senior Management of NCB are aware, there are not any material governmental, legal or arbitration proceedings (including any proceedings which may be pending or threatened) involving the Company. As at 30 June 2014G, no significant provision had been made in respect of legal proceedings as related professional legal advice indicated that it would be unlikely that any significant loss would arise out of routine legal proceedings.

Customer-related legal proceedings

NCB is involved in a litigation case relating to the default by one of NCB's customers of the customer's obligations under a financing facility provided to the customer by NCB. The customer (claimants) brought a claim against NCB alleging that (i) NCB participated with the claimants in establishing a company to own and operate a commercial mall with a total capital of 1.6 billion Saudi Riyals, 60% of which would be contributed by NCB's for an amount of 960 million Saudi Riyals, and 40% would be contributed by the claimants for an amount of 640 million Saudi Riyals; (ii) NCB did not pay all of its contribution share, as it had paid only 640 million Saudi Riyals, such that NCB owed the claimants 320 million Saudi Riyals, being the remaining amount of NCB's contribution share. The claim was for NCB to pay 320 million Saudi Riyals to the claimants, which sum represented the difference between NCB's contribution share and what NCB had actually contributed or for amendment of the share capital of the company such that NCB's share in the equity share capital of the company would be reduced by an equivalent value amount reflecting the shortfall in NCB's contribution.

A judgment was issued by the Jeddah General Court on 29/10/1429H, (corresponding to 29 October 2008G) dismissing the customer's claim on the grounds that the claimants declared under the contracts entered into between them and NCB that the later paid its full share for settling the debt owed by the claimants. This judgment was subsequently appealed by the customers and referred to the Makkah Appeal Court, which thereafter issued Resolution dated 02/07/1434H (corresponding to 12 May 2013G), rejecting the appeal and referring the case to the arbitration in accordance with the article of association of the Company. The case has been referred from appeal court to the Execution Judge and referred to the appeal court several times. The Execution Judge of Jeddah has now heard the case and stated that the claimants should refer to the court for setting action in motion and date for hearing.

Therefore, the subject is dependent upon setting action in motion by the claimants.

As far as the Directors and Senior Management of NCB are aware as of the date of this Prospectus, there are not any material governmental, legal or arbitration proceedings (including any proceedings which may be pending or threatened) involving NCBC or TFKB.

10 - 10 Licences and Approvals

The Directors confirms that the Group is in possession of all operational licences and approvals required to operate its business in the Kingdom. Such operational licences and approvals include, but are not limited to, the following:

NCB is permitted to operate as a commercial bank in the Kingdom by virtue of, and subject to, the terms of the banking licences held by each of its branches (the "**Banking Licences**"). The Banking Licences are renewable each year and states that individual branches are licensed to conduct banking activities in the Kingdom. The Banking Licences bear the stamp of the Governor of SAMA.

As at 30 June 2104G, NCB does not have evidence of written confirmation from SAMA in relation to Banking Licences for one branch. Senior Management is not aware of any objection by SAMA to the continuing operations of such branch despite the lack of written Banking Licences.

On 17 April 2012G, NCB was fined 692,500 Saudi Riyals by SAMA for the continued failure to put in place proper processes to deal with dormant accounts. Issues with NCB's treatment of dormant accounts that violated

SAMA regulations were highlighted in 2008G during an on-site inspection visit by SAMA to NCB. Such issues had not subsequently been remedied resulting in the fine from SAMA. NCB established a task force to address SAMA's concerns which resulted in addressing key issues and matters relating to dormant accounts and in making improvements to internal rules and procedures with regular monitoring and follow-up.

On 13 August 2011G, NCB was fined 625,000 Saudi Riyals by SAMA for NCB's failure to block transactions on a seized (or "frozen") account. In breach of SAMA regulations relating to account freezing, NCB failed to stop transactions in relation to an account that had been "frozen".

On 4 November 2012G, NCB was fined 1,280,500 Saudi Riyals by SAMA for NCB's failure to comply with SAMA's instructions relating to certain of NCB's employees in Mekka and NCB's contractual employees. To prevent further failures, NCB notified all heads of departments of the requirement to implement the Saudisation of (i) all branch employees; and (ii) all jobs relating to communications with SAMA. NCB's heads of departments subsequently prepared Saudisation plans for their respective departments.

NCB also holds certain licences in jurisdictions outside the Kingdom where it maintains a presence. These include a licence from the Central Bank of Lebanon in relation to NCB's branch in Beirut, a license from the Central Bank of Bahrain in relation to NCB's branch in Bahrain and licenses from the Monetary Authority of Singapore, The Bank of Korea and the People's Bank of China in respect of NCB's representative offices in Singapore, Seoul and Shanghai, respectively.

Where required by local law and/or regulations, NCB also holds other permits and licences, such as trade licences. These are typically renewable on regular basis, generally subject to NCB presence in the relevant country remaining in good standing and in compliance with application requirements. Aside from such licences and permits, NCB does not currently hold and is not currently required to obtain any other material licences or permits. NCB does not own any patents.

NCBC is licensed by the CMA pursuant to a letter issued on 3/12/1427H (corresponding to 23 December 2006G) notifying NCB of the decision of the CMA's Board of Directors to give powers to NCB Capital to pursue activities connected with its business after it has satisfied some conditions, and pursuant to another letter issued by the CMA on 10/6/1428H (corresponding to 25 June 2007G) confirming that the conditions were satisfied and granting the power to undertake activities connected with NCB Capital's activities.

TFKB is licensed as a bank by the Turkish Banking Regulation and Supervision Agency pursuant to a letter issued by the Turkish Banking Regulation and Supervision Agency on 1 March 2006G.

10 – 11 Insurance

NCB has various insurances in place with ATC, the Company for Cooperative Insurance ("**Tawuniya**"), Saudi Arabian Insurance Co. ("**SAICO**") and the Trade Union Cooperative Insurance Company ("**TUCI**") as follows:

Table 10-5 Insurance Policies

Policy No.	Insurance Type	Insurer	Expiry Date	Coverage
12213317	NCB executive vehicles	Tawuniya	31 December 2014G	SAR 42,000,000
452144	Workmen's compensation & employers' liability	Tawuniya	31 December 2014G	SAR 5,000,000
GRPTAK – 0001	Group life insurance	ATC	31 December 2014G	SAR 2,726,050,000
GRPTAK – 004	Group credits personal loans plan	ATC	31 December 2014G	SAR 42,000,000
P/102/02/1003/2014/101/1	Property insurance	SAICO	31 December 2014G	SAR 1,492,000,000
P/102/02/2031/2014/201/1	Bankers' blanket bond insurance	SAICO	31 December 2014G	USD 50,000,000 SAR 187,500,000

Policy No.	Insurance Type	Insurer	Expiry Date	Coverage
P/102/02/3001/2014/301/1	Comprehensive general liability	SAICO	31 December 2014G	SAR 10,000,000
P/102/02/3021/2014/301/1	Professional indemnity insurance	SAICO	31 December 2014G	USD10,000,000 SAR 37,500,000
P/102/02/3041/2014/301/1	Directors and Officers Insurance	SAICO	31 December 2014G	USD 25,000,000 SAR 93,750,000
P/102/02/4061/2014/401/1	Computer insurance	SAICO	31 December 2014G	SAR 606,000,000
920019990	Group medical insurance	Tawuniya	31 December 2014G	SAR 90,000,000
Specific policy for each vehicle	Auto lease program motor insurance	TUCI	31 December 2014G	SAR 120,000,000

10 – 12 No Shareholdings or Interests in the Company by the Experts

As at the date of this Prospectus, none of the experts identified in the "*Parties and Advisers*" section of this Prospectus or their Relatives have any shareholding or interest of any kind in the Company or in any of its affiliates.

10 – 13 Conflict of Interests

NCB's constitutional documents do not grant any powers enabling a Director to vote on a contract or offer in which he has material interest, whether directly or indirectly, pursuant to the provision of Article 69 of the Companies Regulations, which prescribes that a Director may not have any direct or indirect interest in the transactions and contracts of NCB except with the permission of the General Assembly of the Shareholders of NCB (the "**General Assembly**"), to be renewed annually. According to the provision of that same Article, a Director shall inform the Board of any personal interest he may have in the transactions and contracts entered into by NCB. The Chairman of the Board is required to disclose to the General Assembly the transactions and contracts in which any Director has a personal interest as prescribed by the Companies Regulations and shall submit a special report from the auditor. The said disclosure shall be recorded in the Board's minutes whereby the conflicted Director is not allowed to take part in the vote on the related matter.

In accordance with the above, a Director or a senior executive may not vote on the remuneration granted to him.

The Directors declare their compliance with the following:

- The provisions of Articles 69 and 70 of the Companies Regulations and Article 18 of the Corporate Governance Regulations.
- To refrain from voting on all contracts entered into with the related parties in the general assembly meetings and not to participate in any activity which may compete with NCB's activities and that all the future transactions with the related party shall be conducted on an arm's length basis pursuant to the provision of Article 70 of the Companies Regulations.

NCB may not extend loans to its Directors or senior executives, or guarantee loans extended to a third party, except in accordance with the rules issued by SAMA in this regard, which rules prevent NCB from granting unsecured loans without the approval of SAMA.

10 – 14 Mortgage

The Directors and Senior Management of NCB confirm that there are no mortgages, rights or charges on NCB's properties or the properties of NCB or its subsidiaries.

10 – 15 Description of Shares

10 – 15 – 1 Share Capital

The Company's share capital is twenty billion (20,000,000,000) Saudi Riyals divided into two billion (2,000,000,000) ordinary Shares of equal value with a nominal value of ten (10) Saudi Riyals paid in full, providing equal rights and obligations to all Shareholders.

10 – 15 – 2 Increase of Share Capital

The General Assembly may increase the share capital of the Company from time to time by way of an extraordinary Shareholders meeting, provided that the original share capital is paid-up in full. The General Assembly decision shall set forth the mechanism for the increase in share capital.

Shareholders shall have the priority of subscription to such new Shares. Existing Shareholders shall be notified of the decision to increase the share capital as well as their priority of subscription and the terms of such subscription through the publication in a daily newspaper. A Shareholder must indicate in writing his desire to exercise his priority right within fifteen days following the aforementioned publication.

10 – 15 – 3 Decrease of Share Capital

The Company's share capital may be decreased through a decision of the General Assembly in an extraordinary meeting, if the Company's share capital exceeds its needs or if the Company has suffered losses, provided that the share capital of the Company shall not fall below the minimum share capital set forth in the Banking Control Law. Any decision to reduce the share capital may not be made except following a report from The Auditors.

The decision of the General Assembly must set out the manner of such reduction in accordance with the Companies Regulations. If the share capital is being reduced because the Company's share capital exceeds its needs, the Company's creditors shall be invited to voice any objections within sixty days from the date of publication of the decision to decrease the share capital in a daily newspaper or the publication most widely circulated in the city in which the Company's headquarters are located. If any creditors objects to the reduction in share capital and presents the Company with its claims within the time period set forth above, the Company must pay any amounts due to the creditor at the time, or provide an adequate guarantee of payment if the amount is not yet due.

10 – 15 – 4 Shares

Shares may not be issued for less than their nominal value, but they may be issued for more than their nominal value, in which case, the additional value shall be added to the statutory reserve, even if such regulated reserve has reached its maximum limit. A share shall be indivisible vis-à-vis the Company. In the event that the Share are owned by several people they must select a person amongst them to use the rights allotted to the Shares and they shall be jointly liable for the obligations arising from the ownership of Share.

10 – 15 – 5 Transfer of Shares

The transfer of Shares is subject to the rules and regulations applicable to companies listed on the Tadawul.

10 – 15 – 6 Voting Rights

A Generally Assembly, duly convened, shall be deemed to represent all Shareholders and shall be held where the Company's head office is located. Each Shareholder owning twenty or more Shares has the right to attend the General Assembly and may authorise another Shareholder, other than the members of the Board, as a proxy to attend General Assembly meetings on his/her behalf.

Resolutions of a General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting. Resolutions of an Extraordinary General Assembly shall be adopted by a majority vote of two thirds of the Shares represented at the meeting.

10 – 15 – 7 Shareholder Assemblies

General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located.

Except for matters reserved for the Extraordinary General Assembly, the General Assembly shall be in charge of all matters concerning the Company. The General Assembly shall be convened at least once a year, within six months following the end of the Company's fiscal year. The Extraordinary General Assembly shall have the power to amend the Bylaws, with the exception of any articles that it may not amend by law. The Extraordinary General Assembly shall also have the power to issue special resolutions to increase or decrease the Company's share capital, to consider increasing or decreasing the term of the Company, to dissolve the Company before the conclusion of its term or to merge with another company or establishment. The Extraordinary General Assembly shall also have the power to issue resolutions addressing internal matters reserved for the General Assembly, subject to the same requirements and conditions applicable to the General Assembly.

Notice of the meeting must be published in the Official Gazette and in a daily newspaper circulated in the city in which the Company's headquarters are located at least 25 days prior to the time set for such meeting.

Both a General Assembly and Extraordinary General Assembly can be convened by invitation from the Chairman of the Board. In addition, the Board shall convene a General Assembly if requested to do so by the Company's auditor or by a number of Shareholders representing at least 5% of the Company's share capital.

The meeting of the General Assembly shall not be quorate unless attended by Shareholders representing at least 50% of the Company's share capital. If such quorum cannot be obtained at the first meeting, an invitation should be sent out for a second meeting to be held within 30 days following the previous meeting. The second meeting shall be deemed valid irrespective of the number of Shares represented.

To have a quorum, the meeting of the Extraordinary General Assembly should be attended by Shareholders representing at least 50% of the Company's capital. If such requirement is not met in the first meeting, a second meeting shall be convened within 30 days. An invitation should be sent out for the second meeting to be held within thirty days following the previous meeting. Such notice shall be published in the same manner described above. The second meeting shall be deemed valid only if attended by a number of Shareholders representing at least one quarter of the Company's Share Capital

The chairman of the General Assembly shall be the Chairman of the Board, the General Manager, or their designee from the Board in the event of their absence.

10 – 15 – 8 Duration of the Company

The Company has a term of 99 years Hijri starting from 26/2/1418H (corresponding to 1 July 1997G). The duration of the Company may always be extended on a resolution of the Extraordinary General Assembly at least one year prior to the end of the term.

10 – 15 – 9 Dissolution and Winding-up of the Company

Upon the expiry of the Company's term, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board shall cease upon the Company's expiry. However, the Board shall remain responsible for the management of the Company until the liquidators are specified.

After the debts of the Company are paid, Shareholders will be refunded their share capital and any excess will be distributed amongst them.

10 – 16 Decisions and Approvals of the Subscription

The Subscription has been authorised by (a) a resolution of NCB's Board of Directors issued during the Board's meeting held on 19/05/1435H (corresponding to 20/3/2014G) approving the Subscription of 15% of NCB's share capital, from the Shares held by PIF, for public subscription (b) a resolution of NCB's Extraordinary General Assembly held on 30/05/1435H (corresponding to 31 March 2014G) approving the public offering of 15% of

NCB's share capital, after the increase of NCB's share capital from fifteen billion (15,000,000,000) Saudi Riyals to twenty billion (20,000,000,000) Saudi Riyals, from the Shares held by PIF; (c) In accordance with the directive of His Majesty, PIF's board of directors' resolution number 10/118/1435 dated 2/06/1435H (corresponding to 2 April 2014G) relating to the sale of a portion of PIF's Shares in NCB and approving (1) the allocation of three hundred million (300,000,000) of the Subscription Shares representing 15% of NCB's share capital for subscription by Saudi individuals only, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Subscription Shares, provided she submits proof of her marital status and motherhood, and a subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant, and (2) the allocation of two hundred million (200,000,000) of the Subscription Shares, representing 10% of NCB's share capital for direct subscription by PPA at the Subscription Price.

The Company has obtained all necessary regulatory consents, approvals and authorisations in connection with the Subscription.

11. WAIVERS

The CMA's approval to waive a number of requirements of the Listing Rules has been obtained, namely those provided for in Articles 5(a), 18(a), and 25(a) of the Listing Rules. Below are the Articles of the Listing Rules that relate to the waivers:

- Article 5(a) of the Listing Rules in relation to the required independence of GIB Capital L.L.C. when appointed as a financial advisor to provide guidance regarding the offering of a portion of NCB's share capital under the Subscription;
- Article 18(a) of the Listing Rules in relation to the requirement that an offer of securities must be fully underwritten by an underwriter authorized by the CMA; and
- Article 25(a) of the Listing Rules in relation to the requirement that the prospectus must be issued and made available to the public for a period of at least fourteen (14) days prior to the beginning of the Subscription Period.

12. SUBSCRIPTION TERMS AND CONDITIONS

The application for Admission has been submitted pursuant to the Listing Rules issued by the CMA.

All Subscribers must carefully read the Subscription Terms and Conditions prior to completing the Subscription Application Form. Signing the Subscription Application Form and delivering it to the Receiving Agent constitutes acceptance of, and agreement to, the Subscription Terms and Conditions.

12 - 1 Subscription for the Retail Allocation

The Retail Allocation consists of 300,000,000 Subscription Shares with a fully paid nominal amount of 10 Saudi Riyals per Share representing 15% of the issued share capital of the Company, which will be offered for subscription at an Subscription Price of forty five (45) Saudi Riyals per Subscription Share.

Subscription to the Retail Allocation is limited to Saudi individuals only, including a Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood. A subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant.

12 - 2 Submission of the Subscription Application Form

Individual Subscribers may obtain Subscription Application Forms during the Subscription Period at the branches of the Receiving Agents and from the website of each Receiving Agent. The price of all subscribed shares must be paid at the branches of the Receiving Agents through one of the following methods:

(1) authorising the Receiving Agent to withdraw from the Subscriber's account with the Receiving Agent to which the Subscription Application Form was submitted,

(2) the provision of a certified bank cheque payable to the order of "National Commercial Bank Subscription", or

(3) in cash.

If the Subscriber does not have an account with the Receiving Agent, he must pay by a certified bank cheque payable to the order of "National Commercial Bank Subscription" or in cash. A Subscriber may not alter or cancel a Subscription Application Form once submitted to a Receiving Agent. Subscription Application Forms must be completed in accordance with the instructions set forth in section 12- "*Subscription Terms and Conditions*".

In addition, subscription will be available through the internet, telephone banking and automated teller machines at the branches of the Receiving Agents that provide some or all of these services to Individual Subscribers who have participated in recent initial public offerings provided that:

(1) the Subscriber maintains a current account with the relevant Receiving Agent which provides such services; and

(2) no changes have occurred to the Individual Subscriber's details since the last recent initial public offering to which such Individual Subscriber subscribed.

The Receiving Agents will commence receiving Subscription Application Forms from Sunday 25/12/1435H (corresponding to 19 October 2014G) up to and including the Closing Date on Sunday 9/1/1436H (corresponding to 2 November 2014G). Once the Subscription Application Form is signed and submitted, the Receiving Agent will stamp it and provide to the Subscriber a copy of the completed Subscription Application Form. The Subscription Application Form will be considered void if the information presented therein is incomplete or inaccurate or not signed by the Receiving Agent.

The Subscriber shall specify in his Subscription Application Form the number of Retail Allocation he intends to subscribe for pursuant to the Retail Allocation. The total amount of subscription shall be the number of Retail Allocation subscribed for multiplied by the Subscription Price of forty five (45) Saudi Riyals per Subscription Share. Subscription Application Forms for less than ten (10) Subscription Shares or fractional numbers will not be accepted. Increments are to be made in multiples of ten (10) Subscription Shares. There is no maximum subscription amount (taking into account the limitations set forth in the Capital Market Law, its implementing regulations and any operative instructions).

Subscription Application Forms should be submitted during the Subscription Period and accompanied (where applicable) by the documents set out below. The Receiving Agents will verify the copies of all documents provided against the originals and will return the originals to the Subscriber.

- The original and copy of the national civil identification card of the Subscriber;
- The original and copy of the family civil record (when subscription is made on behalf of the family members);
- The original and copy of the power of attorney (when application is made by an agent on behalf of the Subscriber);
- The original and copy of the certificate of guardianship for orphans (when subscription is made on behalf of orphans);
- The original and copy of the deed of divorce (for a Saudi divorced woman subscribing for her minor children from a nonSaudi husband);
- The original and copy of the death certificate (for a Saudi widowed woman subscribing for her minor children from a nonSaudi husband); and
- The original and copy of the birth certificate (of the minor children of a Saudi divorced or widowed woman previously married to a nonSaudi).

In the event an application for Retail Allocation is made on behalf of a Subscriber, the name of the person signing on behalf of the Subscriber should be stated in the Subscription Application Form accompanied by the original and a copy of the power of attorney supporting such person's authority to act on behalf of the Subscriber. An application can only be made on behalf of a Subscriber by the parents or children of the Subscriber. The power of attorney must be issued before a Notary Public for those who are in the Kingdom and must be legalised through the Saudi Embassy or Consulate in the relevant country for those residing outside the Kingdom.

A Saudi female divorcee or widow who has children from a marriage to a non-Saudi, who can subscribe for her own benefit, in the name of her minor children, for the Retail Allocation, provided she submits proof of her marital status and motherhood. A subscription for Retail Allocation made by a person in the name of his divorced wife shall be deemed invalid and if a transaction of this nature is proved to have occurred, then the regulations shall be enforced against the concerned applicant.

During the Subscription Period, only a valid Iqama will be an acceptable form of identification for non-Saudi dependents. Passports or birth certificates will not be accepted. Dependents who are non-Saudi Nationals can only be included as dependents with their mother and cannot subscribe as primary Subscribers. The maximum age for non-Saudi dependents to be included with their mother is 18. Any documents issued by a foreign Government must be notarised (attested) by a Saudi consulate or embassy in the relevant country.

One Subscription Application Form should be completed for each head of a family applying for himself and members appearing on his family identification card if dependent (the "**Prime Subscriber**") and the dependants wish to subscribe for the same number of Retail Allocation as the Prime Subscriber. In this case:

1. All the Retail Allocation will be allocated to the Prime Subscriber;
2. the balance amounts of the unallocated Retail Allocation shall be refunded to the Prime Subscriber; and
3. the Prime Subscriber will receive all dividends distributed in respect of the Retail Allocation allocated to himself and his dependents (in the event the Retail Allocation are not sold or transferred).

Separate Subscription Application Forms must be used if:

1. the Retail Allocation that will be allocated are to be registered in a name other than the name of the Prime Subscriber;
2. the dependents wish to subscribe for a different quantity of Retail Allocation than the Prime Subscriber; or
3. a wife wishes to subscribe in her name and register the allocated Retail Allocation in her account, in which case she must complete a separate Subscription Application Form. In such case, any application

submitted by the husband on behalf of his wife shall be cancelled and the Receiving Agents shall process the wife's independent application.

Each Subscriber agrees to subscribe for and purchase the number of Retail Allocation specified in the Subscription Application Form submitted by the Subscriber for an amount equal to the number of Retail Allocation applied for multiplied by the Subscription Price of forty five (45) Saudi Riyals per Subscription Share. Each Subscriber shall have purchased the number of Retail Allocation allotted to him/her upon:

1. delivery of the Subscription Application Form to the Receiving Agents;
2. payment in full by the Subscriber to the Receiving Agents of the total value of the Retail Allocation subscribed for; and
3. delivery to the Subscriber by the Receiving Agents of the allocation notice specifying the number of Retail Allocation allotted to him/her.

The total value of the Retail Allocation subscribed for must be paid in full at a branch of the Receiving Agents by authorising a debit of the Subscriber's account held with the Receiving Agent where the Subscription Application is being submitted.

If a submitted Subscription Application Form is not in compliance with the terms and conditions of the Subscription, the Company shall have the right to reject, in full or in part, such an application. The Subscriber shall accept any number of Retail Allocation allocated to him or her other than if allocated shares exceed the number of Retail Allocation he has applied for.

12 – 3 Acknowledgements

By completing and delivering the Subscription Application Form, the Subscriber:

- accepts the number of shares allocated to him and all other subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form;
- acknowledges that he/she has read the Prospectus and understood all of its contents;
- accepts the Bylaws and all subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form;
- reserves his/her right to sue the Company for damages caused directly by inaccurate or incomplete material information contained in the Prospectus, or by omitting material information that should have been part of the Prospectus and could affect his/her decision to purchase the Retail Allocation;
- declares that neither himself nor any of his family members included in the Subscription Application Form has previously subscribed for Shares and the Company has the right to reject all duplicate applications; and
- warrants not to cancel or amend the Subscription Application Form after submitting it to the Receiving Agent.

12 – 4 Allocation

The Receiving Agents shall open an escrow account named (The National Commercial Bank Subscription). Each of the Receiving Agents shall deposit all amounts received from Subscribers into this escrow account.

The Allocation Process and Refunding Excess Subscription Monies will be announced no later than 16/1/1436H (corresponding to 9 November 2014G). The minimum subscription amount is ten (10) shares for each subscriber. There is no maximum subscription amount (taking into account the limitations set forth in the Capital Market Law, its implementing regulations and any operative instructions). The remaining Retail Allocation, if any, shall be allocated in accordance with the proposal of the Lead Managers after conferring with the CMA.

Excess subscription monies, if any will be returned to subscribers without any commission, charge or withholding by the Lead Managers or the Receiving Agents. Notification of the final allocation and the refund of subscription monies, if any, will be made no later than 16/1/1436H (corresponding to 9 November 2014G).

For further information, Subscribers should contact the Receiving Agent in which they submitted their Subscription Application Form.

12 – 5 Circumstances where the listing of the Shares may be suspended or cancelled

Power to suspend or cancel listing of Shares

The CMA may at any time suspend or cancel the listing of Shares as it deems fit, in any of the following circumstances:

- the CMA considers it necessary for the protection of investors or the maintenance of an orderly market;
- the issuer fails in a manner which the CMA considers material, to comply with the CML and its implementing regulations including a failure to pay on time any fees or fines due to the CMA;
- the liquidity requirements set out in paragraph (a) of Article 13 of Listing Rules are no longer met;
- the CMA considers that the issuer does not have a sufficient level of operations or sufficient assets to warrant the continued trading of its securities on the Exchange;
- the CMA considers that the issuer or its business is no longer suitable to warrant the continued listing of its securities on the Exchange; or
- in the case of cross-listed securities, the listing of the foreign issuer's securities has been suspended or cancelled elsewhere.

Where a suspension of an issuer continues for 6 months, without the issuer taking appropriate action to resume trading in its Shares, the CMA may cancel the listing.

Upon an announcement of an Extraordinary General Assembly's approval of the issuer on a capital increase resulting in a reverse takeover, the listing of the issuer's Shares shall be cancelled. The issuer must submit a new application for registration and admission to listing in accordance with the Listing Rules, should it wish to list its securities.

Voluntary suspension or cancellation of listing

An issuer whose securities have been admitted to listing may not suspend or cancel the listing of its securities on the Exchange without the prior approval of the CMA. The issuer must provide the following to the CMA:

- Specific reasons for the request for the suspension or cancellation;
- A copy of the form of the intended announcement; and
- If the cancellation is to take place as a result of a takeover or other corporate action by the issuer, a copy of the relevant documentation and a copy of each related communication to Shareholders.

Once approval from the CMA has been obtained for the cancellation of listing, an issuer must obtain the consent of its shareholders at an Extraordinary General Assembly.

Where a suspension or cancellation is made at the issuer's request, the issuer must announce as soon as possible the reason for the suspension or cancellation, the anticipated period of the suspension, the nature of the event resulting in the suspension or the cancellation which affects the issuer's activities. The CMA may accept or reject the request for suspension or cancellation in its discretion.

Temporary Trading Halt

An issuer may request a temporary trading halt upon the occurrence of an event during trading hours which requires immediate disclosure under the Listing Rules, where the issuer cannot maintain the confidentiality of this information until the end of the trading period.

To enable the CMA to assess the need for the trading halt and the appropriate duration of the trading halt the request must be supported by:

- Specific reasons for the request for the trading halt and the duration of the requested trading halt; and
- A copy of the announcement to be made by the issuer requesting the trading halt.

Where a trading halt is made at the issuer's request, the issuer must announce, as soon as possible, the reason for the trading halt, the anticipated period of the trading halt and the event affecting the issuer's activities.

The CMA may accept or reject the request for a trading halt in its discretion.

The CMA may impose a trading halt without a request from the issuer where the CMA becomes aware of information or circumstances affecting the issuer's activities which the CMA considers would be likely to interrupt the operation of the Exchange or the protection of investors. An issuer whose securities are subject to a trading halt must continue to comply with the CML and its implementing regulations.

A trading halt will be lifted following the lapse of the period referred to in the announcement, unless the CMA decides otherwise.

Lifting of Suspension

Where a listing has been suspended, the lifting of such suspension will depend on:

- The events which led to the suspension have been sufficiently remedied and the suspension is no longer necessary for the protection of investors; and
- The issuer's compliance with any other conditions that the CMA may require.

The CMA may lift a suspension even where the issuer has not requested it.

Re-registering and Admission to Listing of Cancelled Securities

An issuer is required to submit a new application for registration and admission to listing in order to have any securities which have been cancelled re-registered and admitted to the list of securities.

12 - 6 Miscellaneous Notices

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned or delegated by any of the parties to the subscription without the prior written consent of the other party.

These instructions, the conditions and the receipt of any Subscription Application Forms or related contracts shall be governed, construed and enforced in accordance with the laws of the Kingdom.

This Prospectus has been released in both Arabic and English languages. In the event of a discrepancy between the English and Arabic text, the Arabic text of the Prospectus will prevail.

Although the CMA has approved this Prospectus, it may suspend the Subscription if the Company, at any time after the adoption of this Prospectus by the CMA and before approving the listing of Shares in the market, becomes aware of: (i) a significant change that has occurred in any of the key information contained in this Prospectus, or any of the documents required to be included under the Listing Rules; or (ii) any additional issues that should have been included in this Prospectus.

In these cases it is incumbent on the Company to submit to the CMA a supplementary prospectus, in accordance with the requirements of the Listing Rules. The supplementary prospectus must be published and an announcement made about applicable subscription dates.

12 - 7 The Saudi Stock Exchange (Tadawul)

The Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. Electronic trading in securities commenced in the Kingdom in 1989G.

Trading on the Tadawul occurs through a fully integrated trading system covering the entire process from trade order through settlement. Trading occurs each business day between 11:00 a.m. and 3:30 p.m., from Sunday until Thursday of each week. After close of exchange trading, orders can be entered, amended or deleted from 10:00 a.m. until 11:00 a.m. New entries and enquiries can be made from 10:00 a.m. of the opening session (starting at 11:00 a.m.). These times are subject to change during the Holy month of Ramadan, and are announced by the Tadawul's management.

The Tadawul's system works on matching orders by price, and orders are received and prioritised based on price. In general, market orders are executed first, and if several instructions are entered at the same price level, they are executed at a first come first served basis according to their entry time.

The Tadawul distributes a comprehensive range of information through various channels, including in particular Tadawul's website and Information Link. The Tadawul Information Link supplies trading data in real time to information providers such as Reuters.

Transactions are settled automatically on a T+0 basis, meaning that ownership transfer takes place immediately after the trade is executed.

Issuers are required to report all material announcements via Tadawul for onward dissemination to the public. Surveillance and monitoring is the responsibility of the Tadawul as the operator of the market. The aim of supervision is to ensure fair trading and an orderly market.

12 – 8 Trading of Subscription Shares

It is expected that dealing in the Shares will commence on the Tadawul after finalisation of the allocation process. The Tadawul will announce the start date of trading once determined. Dates and times included in this Prospectus are indicative and may be changed or extended subject to the approval of the CMA.

Furthermore, Shares can only be traded after allocated Shares have been credited to the Subscribers accounts at the Tadawul, the Company has been registered in the Official List and its Shares listed on the Exchange. Pre-trading is strictly prohibited and Subscribers entering into any pre-trading activities will be acting at their own risk. The Company shall have no legal responsibility in such an event.

13. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the Company's head office located at The National Commercial Bank, King Abdulaziz Road, P.O. Box 3555, Jeddah 21481, Kingdom of Saudi Arabia between the hours of 8:00 am to 3:00 pm from Sunday 18/12/1435H (corresponding to 12 October 2014G) until Sunday 9/1/1436H (corresponding to 2 November 2014G):

- Council of Ministers Resolution No. 186 dated 22/11/1417H (corresponding to 30 March 1997G);
- Royal Decree M/19 dated 23/11/1417H (corresponding to 31 March 1997G) incorporating NCB as a Saudi Joint Stock Company;
- NCB's Bylaws;
- NCB's Commercial Registration Certificate No. 4030001588 dated 27/12/1376H (corresponding to 25 July 1957G);
- The CMA's approval of the Subscription and the Resolution of the Board of Directors of the Public Investment Fund No. 10/118/1435H dated 2/6/1435H (corresponding to 2 April 2014G);
- Valuation report of NCB;
- The audited consolidated financial statements of the Company as at, and for the six-month period, ended 30 June 2014G;
- The audited consolidated financial statements of the Company and its subsidiaries as at and for the years ended 31 December 2011G, 2012G and 2013G and interim financial statements for NCB and TFKB for the six months ended 30 June 2014G (the remainder of the subsidiaries do not publish standalone interim financial statements); and
- The reports used in market information.

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED

30 JUNE 2014 AND THE AUDITORS' REPORT

Ernst & Young **KPMG Al Fozan & Al Sadhan**

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014 AND 31 DECEMBER 2013

	Notes	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
ASSETS			
Cash and balances with SAMA	4	**32,080,815**	39,089,688
Due from banks and other financial institutions	5	**20,919,042**	14,831,332
Investments, net	6	**163,635,227**	125,294,012
Loans and advances, net	7	**206,194,657**	187,687,037
Investments in associates, net	8	**407,835**	828,915
Other real estate, net	9	**861,144**	216,001
Property and equipment, net	10	**3,438,311**	2,761,528
Goodwill and other intangible assets, net	11	**817,611**	873,636
Other assets	12	**7,175,398**	5,698,185
Total assets		**435,530,040**	377,280,334
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**26,198,484**	24,725,314
Customers' deposits	15	**345,597,090**	300,601,675
Debt securities issued	16	**9,501,714**	1,511,250
Other liabilities	17	**7,878,324**	7,905,915
Total liabilities		**389,175,612**	334,744,154
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	18	**20,000,000**	15,000,000
Treasury shares	42	**(190,510)**	(177,093)
Statutory reserve	19	**15,102,989**	15,102,989
Other reserves (cumulative changes in fair values)	20	**1,712,209**	1,353,948
Retained earnings		**7,976,455**	9,699,260
Proposed dividend	28	**1,595,707**	1,645,573
Foreign currency translation reserve		**(1,589,119)**	(1,690,770)
Total equity attributable to equity holders of the Bank		**44,607,731**	40,933,907
NON-CONTROLLING INTERESTS	40	**1,746,697**	1,602,273
Total equity		**46,354,428**	42,536,180
Total liabilities and equity		**435,530,040**	377,280,334

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTH PERIOD ENDED,

	Notes	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Special commission income	22	**6,567,268**	5,943,829
Special commission expense	22	**(1,067,112)**	(864,696)
Net special commission income		**5,500,156**	5,079,133
Fee income from banking services, net	23	**1,715,334**	1,651,670
Exchange income, net		**360,987**	324,612
Income from FVIS investments, net		**60,500**	62,480
Trading income, net	24	**50,816**	53,129
Dividend income		**87,782**	62,111
Gains on non-trading investments, net	25	**341,395**	526,938
Other operating (expenses) income, net		**(37,597)**	5,577
Total operating income		**8,079,373**	7,765,650
Salaries and employee-related expenses		**1,584,274**	1,527,690
Rent and premises-related expenses		**315,051**	305,095
Depreciation of property and equipment	10	**244,807**	232,207
Amortisation of intangible assets	11	**94,668**	94,668
Other general and administrative expenses		**736,005**	701,858
Impairment charge for credit losses, net	7.3	**113,883**	415,909
Impairment charge on investments, net	6.7	**97,827**	22,157
Total operating expenses		**3,186,515**	3,299,584
Income from operations, net		**4,892,858**	4,466,066
Other income (expenses)			
Other non-operating income (expenses), net	26	**141,499**	(61,105)
Net other income (expenses)		**141,499**	(61,105)
Net income for the period		**5,034,357**	4,404,961
Net income for the period attributable to:			
Equity holders of the Bank		**4,960,714**	4,324,064
Non-controlling interests		**73,643**	80,897
Net income for the period		**5,034,357**	4,404,961
Basic and diluted earnings per share (expressed in SR per share)	27	**2.49**	2.17

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED,

	Notes	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Net income for the period		**5,034,357**	4,404,961
Other comprehensive (loss) income items that are or may be reclassified to the consolidated statement of income:			
Foreign currency translation reserve - gains/(losses)		**153,224**	(354,421)
Available for sale financial assets:			
- Net change in fair values		**584,154**	62,624
- Transfers to consolidated statement of income		**(259,517)**	(451,288)
- Impairment charge on available for sale investments		**48,148**	22,157
Cash flow hedges:			
- Effective portion of change in fair values	13	**36,221**	(5,853)
- Transfers to consolidated statement of income	13	**(12,716)**	(19,682)
Total comprehensive income for the period		**5,583,871**	3,658,498
Attributable to:			
Equity holders of the Bank		**5,420,626**	3,697,790
Non-controlling interests		**163,245**	(39,292)
Total comprehensive income for the period		**5,583,871**	3,658,498

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED,

	Notes	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Other reserves: Available for sale financial assets SR' 000	Other reserves: Cash flow hedge SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total equity SR' 000
For the six month period ended 30 June 2014 (Audited)												
Balance as at 1 January 2014		**15,000,000**	**(177,093)**	**15,102,989**	**1,323,153**	**30,795**	**9,699,260**	**1,645,573**	**(1,690,770)**	**40,933,907**	**1,602,273**	**42,536,180**
Total comprehensive income for the period		-	-	-	**334,757**	**23,504**	**4,960,714**	-	**101,651**	**5,420,626**	**163,245**	**5,583,871**
Adjustments in non-controlling interest and subsidiaries		-	-	-	-	-	**(608)**	-	-	**(608)**	**(18,821)**	**(19,429)**
Bonus issue	18	**5,000,000**	**(13,417)**	-	-	-	**(4,986,583)**	-	-	-	-	-
Proposed interim dividend for 2014	28	-	-	-	-	-	**(1,595,707)**	**1,595,707**	-	-	-	-
Zakat - NCB and NCBC	17&28	-	-	-	-	-	**(100,621)**	-	-	**(100,621)**	-	**(100,621)**
Final dividend paid for 2013	28	-	-	-	-	-	-	**(1,645,573)**	-	**(1,645,573)**	-	**(1,645,573)**
Balance as at 30 June 2014 (Audited)		**20,000,000**	**(190,510)**	**15,102,989**	**1,657,910**	**54,299**	**7,976,455**	**1,595,707**	**(1,589,119)**	**44,607,731**	**1,746,697**	**46,354,428**
For the six month period ended 30 June 2013 (Unaudited)												
Balance as at 1 January 2013		15,000,000	(177,093)	13,623,678	1,765,983	91,359	7,051,299	1,495,975	(1,147,570)	37,703,631	1,700,514	39,404,145
Total comprehensive (loss)/income for the period		-	-	-	(349,775)	(25,535)	4,324,064	-	(250,964)	3,697,790	(39,292)	3,658,498
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	6,695	-	-	6,695	(16,580)	(9,885)
Capital injection	1.2(b)	-	-	-	-	-	-	-	-	-	65,539	65,539
Final dividend paid for 2012		-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
Balance as at 30 June 2013 (Unaudited)		15,000,000	(177,093)	13,623,678	1,416,208	65,824	11,382,058	-	(1,398,534)	39,912,141	1,710,181	41,622,322

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED,

	Notes	30 June 2014 (Audited) SR' 000	30 June 2013 (Unaudited) SR' 000
OPERATING ACTIVITIES			
Net income for the period		**5,034,357**	4,404,961
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		**97,578**	97,769
(Gains) on non-trading investments, net		**(341,395)**	(526,938)
(Gains) on disposal of property and equipment, net		**(15,170)**	(9,063)
(Gains) on disposal of other real estate, net		**(146,681)**	-
Loss on disposal of other repossessed assets		**8,009**	2,048
Depreciation of property and equipment	10	**244,807**	231,603
Amortisation of intangible assets	11	**94,668**	94,668
Impairment charge for credit losses, net	7.3	**113,883**	415,909
Bank's share in associates' (losses) and reversal (impairment), net	26	**(52,370)**	2,069
Impairment charge on investments, net	6.7	**97,827**	22,157
		5,135,513	4,735,183
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		**(3,087,748)**	(2,307,048)
Due from banks and other financial institutions with original maturity of more than three months		**(5,413,980)**	(3,686,214)
Held as fair value through income statement (FVIS) investments		**(150,214)**	87,765
Loans and advances		**(18,806,461)**	(17,246,976)
Other real estate		**20,214**	19,133
Other assets		**(1,173,528)**	(2,456,575)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,468,061**	(891,686)
Customers' deposits		**44,980,207**	16,247,257
Other liabilities		**(194,964)**	586,770
Net cash from (used in) operating activities		**22,777,100**	(4,912,391)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS		**39,492,244**	45,546,307
Purchase of non-trading / non-FVIS investments		**(77,114,939)**	(58,646,186)
Purchase of property and equipment	10	**(1,014,144)**	(184,685)
Proceeds from disposal of property and equipment		**107,894**	9,158
Net cash (used in) investing activities		**(38,528,945)**	(13,275,406)
FINANCING ACTIVITIES			
Debt securities issued	16	**7,989,402**	1,511,250
Net movement in non-controlling interests		**(19,426)**	70,034
Dividends paid (final)		**(1,645,573)**	(1,495,975)
Net cash from financing activities		**6,324,403**	85,309
Net (decrease) in cash and cash equivalents		**(9,427,442)**	(18,102,488)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		**4,551**	(459,352)
Cash and cash equivalents at the beginning of the period		**30,594,562**	38,088,205
Cash and cash equivalents at the end of the period	29	**21,171,671**	19,526,365
Special commission received during the period		**6,664,846**	6,085,129
Special commission paid during the period		**1,067,112**	873,247
Supplemental non-cash information			
Movement in other reserve and transfers to consolidated statement of income		**396,290**	414,199

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

1. GENERAL

(1.1) **Introduction**

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

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and 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 operates through its 319 branches (31 December 2013: 312 branches), 16 retail service centres (31 December 2013: 17 centres), 10 corporate service centres (31 December 2013: 10 centres) and 60 QuickPay remittance centers (31 December 2013: 57 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). 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.

In an extraordinary general assembly meeting held on 31 March 2014, the shareholders approved an Initial Public Offering (IPO) of 15% of the Bank's share capital (after capital increase). The shares offered for the IPO will be from part of the shareholding of a majority shareholder of the Bank. The IPO is subject to required regulatory approvals.

(1.2) **Group's subsidiaries**

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

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activitives. The Bank has a 90.71% (31 December 2013: 90.71%) direct ownership interest in NCBC and an indirect ownership of 4.74% (31 December 2013: 2.79%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

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

The Bank has a 66.27% (31 December 2013: 66.27%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. During the year ended 31 December 2012, the shareholders of TFK, resolved to increase the capital by TL 975 million, which was subsequently endorsed by the Central Bank of Turkey (BRSA). Accordingly, the share capital of the Turkish Bank has been increased to TL 1,775 million through the capitalization of retained earnings and cash contribution. The Bank's share of such cash contribution was TL 206 million (SR 431 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

1. GENERAL (continued)

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

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 66.82% (31 December 2013: 65.46%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC acquired a 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate. On 5 September 2013, NCBC disposed off 7% of its ownership interest in Eastgate for a consideration of SR 656 thousands, without losing control.

(d) NCBC Investment Management Umbrella Company Plc

The Group has a 95.45% (31 December 2013: 93.5%) effective ownership in NCBC Investment Management Umbrella Company Plc, which was formed by NCBC in Ireland. NCBC Investment Management Umbrella Company Plc is the Undertaking Company for Collective Investment in Transferable Securities (UCITS) under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011.

(e) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (31 December 2013: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralized real estate properties on behalf of the Bank.

2. BASIS OF PREPARATION

(2.1) **Statement of compliance**

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared in connection with the planned Initial Public Offering (IPO) of the Bank's shares (see note 1.1).

(2.2) **Basis of measurement**

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) **Functional and presentation currency**

These 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**

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries, Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate and NCBC Investment Management Umbrella Company Plc in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Group, using consistent accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgements, estimates and assumptions**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Group reviews its loan portfolios to assess an additional portfolio (collective) provision on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments that are not quoted in an active market

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 to sell the asset or transfer the liability takes place either:

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see note 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(b) Fair value of financial instruments that are not quoted in an active market (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

(c) Impairment of available for sale equity investments

The Group exercises judgment to consider impairment on the available for sale (equity) investments. This includes determination of a significant or prolonged decline in the fair value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share prices. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates (continued)

(f) Impairment of non-financial assets (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Determination of control over investment funds

The Group acts as a Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the year ended 31 December 2013.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(3.1) Changes in accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2013 except for the adoption of the following new standards and other amendments to existing standards mentioned below which had no financial impact on the consolidated financial statements of the Group for current period or prior period and are expected to have an insignificant effect in future periods:

Amendments to existing standards

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investment funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being subsidiaries that are considered an extension of the investment entity's investing activities.

- IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.

- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendment, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognized or reversed.

- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation, that was not contemplated in the original hedging documentation, meets specified criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) **Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.3) **Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.3.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the period and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3.2) 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.

(3.3.3) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be "highly effective", i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) **Derivative financial instruments and hedge accounting (continued)**

(3.3.5) Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated statement of income.

(3.4) **Foreign currencies**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC and Redco is the Saudi Riyal. The functional currency for the Turkish Bank is the Turkish Lira and the functional currency of Eastgate and NCBC Investment Management Umbrella Company Plc is the U.S. Dollar.

(a) Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates prevailing at the transaction dates. Monetary assets and liabilities at the period-end, denominated in foreign currencies, are retranslated into functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on a daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the statement of income in 'Other operating expenses' or 'Other operating income' at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) **Offsetting financial instruments**

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.6) **Revenue / expenses recognition**

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the period. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

Dividend income is recognized when the right to receive dividend income is established.

Fees income and expenses are recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) **Trading income (loss), net**

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.8) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) **Sale and repurchase agreements (continued)**

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA, "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.9) **Business combinations**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group’s accounting policy.

(a) Subsidiaries

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

i) the Group has power over the 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 Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the period, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

(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 consolidated statement of income and within equity in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) **Business combinations (continued)**

(c) Associates

Associates are enterprises over which the Group 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 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 recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

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

(3.10) **Goodwill and other intangible assets**

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss on goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(b) Other intangible assets

Intangible assets in the statement of financial position comprise of customer deposits relationships, the value of the TFK's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial period-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 3-4 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

(b) Held at fair value through income statement (FVIS)

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments (continued)**

(c) Available for sale (AFS)

Available for sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gains or losses are recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

(3.12) **Loans and advances**

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and advances are initially measured at fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

For presentation purposes, provision for credit losses is deducted from loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.13) **Due from banks and other financial institutions**

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.14) **Impairment of financial assets**

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses of corporate loans, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since they were originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, which is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

Corporate loans are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the loan has been past due, significant changes in the borrower's financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

Consumer loans are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans which reach the "write-off point" (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) **Impairment of financial assets (continued)**

(b) Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as a reversal of provision for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) **Other real estate and repossessed assets**

The Group, in the ordinary course of business, acquires certain real estate and other assets against settlement of due loans and advances. These are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of such related assets, less any costs to sell (if material). No depreciation is charged on such assets.

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain on disposal of repossessed assets are included in other operating income, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.16) **Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	3-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

All such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(3.17) **Financial liabilities**

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.18) **Financial guarantees and loan commitments**

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions.

(3.19) **Provisions**

Provisions (other than impairment of credit losses and investments) are recognized when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.20) **Accounting for leases**

(a) Where the Group is the lessee

All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognized as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) **Zakat and overseas income tax**

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on the shareholder's behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

The Bank calculates Zakat only on annual basis at the end of each financial year.

(3.22) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) **Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.24) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and its subsidiaries and, accordingly, are not included in the consolidated financial statements of the Group.

(3.25) **Financing products in compliance with *Shariah* rules**

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's *Shariah* Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with customer specifications.

The Bank signs Istisna'a contracts with customers to provide specified assets at agreed-upon prices (equal to the Bank's cost plus a specified profit margin) and payment terms. The Bank then signs parallel Istisna'a agreements with manufacturers for the delivery of these assets in return for settlement of the costs by the Bank.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in loans and advances.

(3.26) **Shariah-compliant deposit products**

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

AlKhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they have invested plus a profit.

This Shariah-compliant deposit product is accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in customers' deposits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) **Treasury shares**

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

Treasury shares are adjusted to take account of any bonus issue.

(3.28) **End of service benefits**

The provision for end of service benefits is based on the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

(3.29) **Staff compensation**

The Bank's Board of Directors and its Nomination and Compensation Committee oversee the design and implementation of the Bank's Compensation process in accordance with SAMA's Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Compensation and Nomination Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities have been reviewed and updated in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation process and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.29.1) Fixed Compensation

The fixed compensation comprises salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation grade structure and pay scales. The competitiveness of the pay scales is maintained through participation in periodic and regular market pay surveys.

(3.29.2) Variable Compensation

Variable compensation aims at driving performance and limiting excessive risk-taking. The Bank operates two plans under variable compensation:

(a) Annual Performance Bonus

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Bank's business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employee development, teamwork, staff morale.

The Bank has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Bank's overall results. The overall annual performance bonus pool is set as a percentage of the Bank's net income, adjusted to reflect the core performance of the employees. The Bank does not have a guaranteed bonus plan.

The cost of this plan is recognized in the consolidated statement of income of the period to which it relates and is normally paid during the 1st quarter of the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.29) **Staff Compensation (continued)**

(3.29.2) Variable compensation (continued)

(b) Long term Performance Plan

This plan aims at driving and rewarding achievements that lead to long-term corporate success, measured on the basis of return on equity (ROE) attributable to the equity holders of the Bank. The plan is rolled out in three-year cycles. The Bank's actual performance is assessed at the end of each cycle as a basis for determining the actual payout amount.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection is made through rigorous vetting to ensure that other critical participation criteria are met.

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The three year cost estimate is apportioned and charged equally to the statement of income of each year in the cycle. As the estimate is revised annually, the difference between the latest and the previous estimate is apportioned and charged equally over the remainder of the cycle.

4. CASH AND BALANCES WITH SAMA

	30 June 2014 (Audited) SR ’000	31 December 2013 (Audited) SR ’000
Cash in hand	**6,296,461**	5,104,443
Balances with SAMA:		
Statutory deposit	**19,892,212**	16,804,464
Money market placements and current accounts	**5,892,142**	17,180,781
Total	**32,080,815**	39,089,688

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 33). The statutory deposits with SAMA are not available to finance the Bank’s day-to-day operations and therefore are not part of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Current accounts	**6,709,633**	4,469,447
Money market placements	**14,209,409**	10,361,885
Due from banks and other financial institutions	**20,919,042**	14,831,332

The credit quality of due from banks and other financial institutions is managed using credit ratings, as determined by reputable external credit rating agencies (see note 31).

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Mutual funds	**682,381**	575,425	**110,946**	97,652	**793,327**	673,077
Held for trading	**682,381**	575,425	**110,946**	97,652	**793,327**	673,077

(b) Held as FVIS

	Domestic		International		Total	
	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Hedge funds	**-**	-	**2,101,978**	2,072,015	**2,101,978**	2,072,015
Held as FVIS	**-**	-	**2,101,978**	2,072,015	**2,101,978**	2,072,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. INVESTMENTS, NET (continued)

(c) Available for sale

	Domestic		International		Total	
	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	**30 June 2014 (Audited) SR '000**	31 December 2013 (Audited) SR '000	**30 June 2014 (Audited) SR '000**	31 December 2013 (Audited) SR '000
Fixed rate securities	-	-	**16,310,559**	19,697,704	**16,310,559**	19,697,704
Floating rate securities	-	-	**6,763,755**	4,535,279	**6,763,755**	4,535,279
Equity instruments	**1,883,352**	2,729,063	**4,278,833**	1,774,974	**6,162,185**	4,504,037
Others	-	-	**473**	473	**473**	473
Available for sale, gross	**1,883,352**	2,729,063	**27,353,620**	26,008,430	**29,236,972**	28,737,493
Provision for impairment	**(98,778)**	(220,516)	**(785,877)**	(855,149)	**(884,655)**	(1,075,665)
Available for sale, net	**1,784,574**	2,508,547	**26,567,743**	25,153,281	**28,352,317**	27,661,828

(d) Held to maturity

	Domestic		International		Total	
	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	**30 June 2014 (Audited) SR '000**	31 December 2013 (Audited) SR '000	**30 June 2014 (Audited) SR '000**	31 December 2013 (Audited) SR '000
Fixed rate securities	-	-	**1,180,097**	1,030,246	**1,180,097**	1,030,246
Held to maturity	-	-	**1,180,097**	1,030,246	**1,180,097**	1,030,246

(e) Other investments held at amortised cost

	Domestic		International		Total	
	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000	**30 June 2014 (Audited) SR '000**	31 December 2013 (Audited) SR '000	**30 June 2014 (Audited) SR '000**	31 December 2013 (Audited) SR '000
Fixed rate securities	**62,578,209**	39,157,303	**47,639,241**	40,181,524	**110,217,450**	79,338,827
Floating rate securities	**6,440,020**	5,946,011	**14,599,718**	8,572,008	**21,039,738**	14,518,019
Other investments held at amortised cost, gross	**69,018,229**	45,103,314	**62,238,959**	48,753,532	**131,257,188**	93,856,846
Provision for impairment	-	-	**(49,680)**	-	**(49,680)**	-
Other investments held at amortised cost, net	**69,018,229**	45,103,314	**62,189,279**	48,753,532	**131,207,508**	93,856,846
Investments, net	**71,485,184**	48,187,286	**92,150,043**	77,106,726	**163,635,227**	125,294,012

Other investments held at amortized cost include investments having an amortized cost of SR 6,461 million (31 December 2013: Nil) which are held under a fair value hedge relationship. As at 30 June 2014, the fair value of these investments amounts to SR 6,544 million (31 December 2013: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

6. INVESTMENTS, NET (continued)

(6.2) The analysis of the composition of investments is as follows:

	30 June 2014 (Audited) SR '000			31 December 2013 (Audited) SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**16,369,509**	**111,441,929**	**127,811,438**	19,974,284	80,093,459	100,067,743
Floating rate securities	**3,979,346**	**23,720,814**	**27,700,160**	4,442,247	14,610,085	19,052,332
Hedge funds	**-**	**2,101,978**	**2,101,978**	-	2,072,015	2,072,015
Equity instruments	**3,466,024**	**2,696,161**	**6,162,185**	2,682,161	1,821,876	4,504,037
Others	**793,327**	**473**	**793,800**	673,077	473	673,550
Investments, gross	**24,608,206**	**139,961,355**	**164,569,561**	27,771,769	98,597,908	126,369,677
Provision for impairment	**(101,423)**	**(832,911)**	**(934,334)**	(319,792)	(755,873)	(1,075,665)
Investments, net	**24,506,783**	**139,128,444**	**163,635,227**	27,451,977	97,842,035	125,294,012

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds. Others include Mutual Funds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities that although are quoted but for which there is no active market. The carrying value of such securities amounts to SR 58,285 million (31 December 2013: SR 49,741 million).

Unquoted equity instruments include investments amounting to SR 68 million (31 December 2013: SR 68 million), net of provision for impairment, that are carried at cost as their fair values cannot be reliably measured.

(6.3) Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the event of default by the Bank (see note 14).

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	30 June 2014 (Audited) SR '000		31 December 2013 (Audited) SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**1,696,679**	**1,696,679**	5,474,918	5,474,918
Held to maturity	**-**	**-**	467,765	526,514
Investments held at amortised cost	**1,062,465**	**1,087,314**	1,089,417	1,120,139
Total	**2,759,144**	**2,783,993**	7,032,100	7,121,571

The Bank has placed a margin deposit of SR 121 million (31 December 2013: SR 263 million) as an additional security for these repo transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

6. INVESTMENTS, NET (continued)

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held

(a) Held to maturity

	30 June 2014 (Audited) SR '000				31 December 2013 (Audited) SR '000			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**1,180,097**	**62,305**	**-**	**1,242,402**	1,030,246	76,430	-	1,106,676
Total	**1,180,097**	**62,305**	**-**	**1,242,402**	1,030,246	76,430	-	1,106,676

(b) Other investments held at amortised cost

	30 June 2014 (Audited) SR '000				31 December 2013 (Audited) SR '000			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**110,217,450**	**1,430,100**	**(586,059)**	**111,061,491**	79,338,827	1,397,308	(1,137,476)	79,598,659
Floating rate securities	**21,039,738**	**325,758**	**(94,406)**	**21,271,090**	14,518,019	267,950	(111,284)	14,674,685
Other investments held at amortised cost, gross	**131,257,188**	**1,755,858**	**(680,465)**	**132,332,581**	93,856,846	1,665,258	(1,248,760)	94,273,344
Provision for impairment	**(49,680)**	**-**	**-**	**(49,680)**	-	-	-	-
Total	**131,207,508**	**1,755,858**	**(680,465)**	**132,282,901**	93,856,846	1,665,258	(1,248,760)	94,273,344

(6.5) Counterparty analysis of the Group's investments, net of provisions

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Government and Quasi Government	**141,537,891**	108,020,874
Corporate	**14,466,953**	9,911,435
Banks and other financial institutions	**7,630,383**	7,361,703
Total	**163,635,227**	125,294,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. INVESTMENTS, NET (continued)

(6.6) Credit quality of investments

The credit quality of investments (excluding investment in equity instruments, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Performing:		
Saudi Government Bonds and Treasury Bills	**51,266,995**	27,994,537
Investment grade	**103,211,604**	89,854,617
Non-investment grade	**1,003,508**	1,165,150
Unrated	**7,021**	83,171
Total performing	**155,489,128**	119,097,475
Less: portfolio (collective) provision	**(59,375)**	(84,566)
Net performing	**155,429,753**	119,012,909

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

(6.7) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	Six month period ended		Year ended
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000	31 December 2013 (Audited) SR '000
Balance at 1 January	**1,075,665**	1,086,387	1,086,387
Net charge for the period/year	**97,827**	22,157	40,406
Released against investments sold/written-off	**(239,158)**	(104,665)	(51,128)
Balance at 30 June/31 December	**934,334**	1,003,879	1,075,665

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
30 June 2014 (Audited)					
Performing loans and advances	**2,692,701**	**67,866,498**	**134,290,113**	**3,609,108**	**208,458,420**
Non-performing loans and advances	**69,120**	**375,584**	**2,374,473**	**56,643**	**2,875,820**
Total loans and advances	**2,761,821**	**68,242,082**	**136,664,586**	**3,665,751**	**211,334,240**
Provision for credit losses	**(82,863)**	**(1,164,186)**	**(3,823,643)**	**(68,891)**	**(5,139,583)**
Loans and advances, net	**2,678,958**	**67,077,896**	**132,840,943**	**3,596,860**	**206,194,657**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
31 December 2013 (Audited)					
Performing loans and advances	2,421,326	60,344,450	123,901,275	2,942,721	189,609,772
Non-performing loans and advances	62,053	373,211	2,424,432	59,753	2,919,449
Total loans and advances	2,483,379	60,717,661	126,325,707	3,002,474	192,529,221
Provision for credit losses	(67,924)	(803,084)	(3,898,590)	(72,586)	(4,842,184)
Loans and advances, net	2,415,455	59,914,577	122,427,117	2,929,888	187,687,037

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 140,382 million, (31 December 2013: SR 124,151 million).

Provision for credit losses related to financing products in compliance with Shariah rules is SR 3,644 million, (31 December 2013: SR 3,446 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

7. LOANS AND ADVANCES, NET (continued)

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
30 June 2014 (Audited)					
Balance at 1 January	**67,924**	**803,084**	**3,898,591**	**72,586**	**4,842,185**
Foreign currency translation adjustment	**10**	**31**	**625**	**-**	**666**
Provided during the period	**67,598**	**748,971**	**231,064**	**383**	**1,048,016**
Bad debts (written off)	**(51,012)**	**(384,225)**	**(182,872)**	**(77)**	**(618,186)**
(Recoveries) of amounts previously provided	**(1,657)**	**(3,675)**	**(123,765)**	**(4,001)**	**(133,098)**
Balance at 30 June	**82,863**	**1,164,186**	**3,823,643**	**68,891**	**5,139,583**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
31 December 2013 (Audited)					
Balance at 1 January	111,728	808,974	6,004,393	130,034	7,055,129
Foreign currency translation adjustment	(2,215)	(9,526)	(114,105)	-	(125,846)
Provided during the year	77,050	655,031	619,253	-	1,351,334
Bad debts (written off)	(116,463)	(646,390)	(2,428,151)	(57,448)	(3,248,452)
(Recoveries) of amounts previously provided	(2,176)	(5,005)	(182,799)	-	(189,980)
Balance at 31 December	67,924	803,084	3,898,591	72,586	4,842,185

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
30 June 2013 (Unaudited)					
Balance at 1 January	111,728	808,975	6,004,393	130,034	7,055,130
Foreign currency translation adjustment	(1,114)	(4,096)	(55,813)	-	(61,023)
Provided (reversed) during the period	4,730	317,190	305,585	-	627,505
Bad debts (written off)	-	(342,591)	(1,396,408)	-	(1,738,999)
(Recoveries) of amounts previously provided	(1,227)	(11,315)	(94,206)	-	(106,748)
Balance at 30 June	114,117	768,163	4,763,551	130,034	5,775,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

7. LOANS AND ADVANCES, NET (continued)

(7.3) Impairment charge for credit losses in the consolidated statement of income represents:

	Six month period ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	(Audited)	(Unaudited)	(Audited)
	SR '000	SR '000	SR '000
Additions during the period/year	**1,048,016**	627,501	1,351,334
(Recoveries) of amounts previously provided	**(133,098)**	(106,746)	(189,980)
	914,918	520,755	1,161,354
Provision against indirect facilities (included in other liabilities) (note 17)	**66,145**	59,358	32,662
(Recoveries) of debts previously written-off (see note below)	**(868,808)**	(166,879)	(403,209)
Direct write-offs	**1,628**	2,675	4,538
Net charge for the period/year (impairment charge for credit losses, net)	**113,883**	415,909	795,345

During the six month period ended 30 June 2014, the Bank received certain real estate properties, amounting to SR 0.6 billion, as full and final settlement against a previously written-off loan. As at 30 June 2014, the properties received have been included under 'other real estate, net' (see note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances

The Group uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

The credit quality of loans and advances is managed using internal credit ratings. The table below shows the credit quality by class of asset.

	SR '000			
	Consumer and Credit cards	Corporate	Others	Total
30 June 2014 (Audited)				
Performing:				
Neither past due nor impaired				
Level 1	-	96,705,437	1,000,000	97,705,437
Level 2	-	26,323,931	-	26,323,931
Level 3	-	4,614,333	-	4,614,333
Level 4	-	1,778,054	-	1,778,054
Standard - unrated	67,059,006	1,813,887	2,609,108	71,482,001
Total	67,059,006	131,235,642	3,609,108	201,903,756
Past due but not impaired				
Less than 30 days	2,728,235	1,852,949	-	4,581,184
30-59 days	506,315	451,563	-	957,878
60-90 days	265,643	749,959	-	1,015,602
Sub total	3,500,193	3,054,471	-	6,554,664
Total performing	70,559,199	134,290,113	3,609,108	208,458,420
Less: portfolio (collective) provision	(970,353)	(1,699,533)	(30,246)	(2,700,132)
Net performing	69,588,846	132,590,580	3,578,862	205,758,288
Non-performing:				
Total non-performing	444,704	2,374,473	56,643	2,875,820
Less: specific provision	(276,696)	(2,124,110)	(38,645)	(2,439,451)
Net non-performing	168,008	250,363	17,998	436,369
Total loans and advances, net	69,756,854	132,840,943	3,596,860	206,194,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances (continued)

	SR '000			
	Consumer and Credit cards	Corporate	Others	Total
31 December 2013 (Audited)				
Performing:				
Neither past due nor impaired				
Level 1	-	87,595,214	2,696,322	90,291,536
Level 2	-	24,297,814	-	24,297,814
Level 3	-	4,036,836	-	4,036,836
Level 4	-	2,730,051	-	2,730,051
Standard - unrated	59,718,113	1,708,870	1,944,323	63,371,306
Total	59,718,113	120,368,785	4,640,645	184,727,543
Past due but not impaired				
Less than 30 days	2,387,702	1,043,142	845	3,431,689
30-59 days	450,191	467,170	-	917,361
60-90 days	209,770	323,409	-	533,179
Sub total	3,047,663	1,833,721	845	4,882,229
Total performing	62,765,776	122,202,506	4,641,490	189,609,772
Less: portfolio (collective) provision	(541,928)	(1,836,081)	(30,246)	(2,408,255)
Net performing	62,223,848	120,366,425	4,611,244	187,201,517
Non-performing:				
Total non-performing	435,264	2,424,432	59,751	2,919,447
Less: specific provision	(329,079)	(2,062,508)	(42,340)	(2,433,927)
Net non-performing	106,185	361,924	17,411	485,520
Total loans and advances, net	62,330,033	120,728,349	4,628,655	187,687,037

Standard - unrated loans mainly comprise of consumer, credit cards, small businesses and private banking loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances (continued)

Collateral

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair values of the collateral held by Group against loans and advances by each category are as follows:

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Neither past due nor impaired	**58,646,538**	53,413,123
Past due but not impaired	**3,576,385**	2,495,826
Impaired	**670,147**	590,744
Total	**62,893,070**	56,499,693

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with intent to dispose off in case of default by the customer.

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7. LOANS AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

30 June 2014 (Audited)	**Performing SR' 000**	**Non-performing SR' 000**	**Specific provision SR' 000**	**Loans and advances, net SR' 000**
Government and quasi Government	**2,848,485**	**-**	**-**	**2,848,485**
Banks and other financial institutions	**5,587,113**	**4,190**	**(3,947)**	**5,587,356**
Agriculture and fishing	**759,342**	**22,107**	**(13,131)**	**768,318**
Manufacturing	**32,709,502**	**489,147**	**(440,235)**	**32,758,414**
Electricity, water, gas and health services	**10,090,647**	**10,215**	**(4,787)**	**10,096,075**
Building and construction	**14,543,787**	**580,290**	**(529,097)**	**14,594,980**
Commerce	**36,592,149**	**1,156,783**	**(1,043,065)**	**36,705,867**
Transportation and communication	**12,431,064**	**21,857**	**(19,625)**	**12,433,296**
Services	**18,347,155**	**46,241**	**(40,825)**	**18,352,571**
Consumer loans and credit cards	**70,559,200**	**444,704**	**(276,696)**	**70,727,208**
Others	**3,989,976**	**100,286**	**(68,043)**	**4,022,219**
	208,458,420	**2,875,820**	**(2,439,451)**	**208,894,789**
Portfolio (collective) provision				**(2,700,132)**
Loans and advances, net				**206,194,657**

31 December 2013 (Audited)	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Loans and advances, net SR' 000
Government and quasi Government	2,649,831	-	-	2,649,831
Banks and other financial institutions	2,874,054	4,127	(3,880)	2,874,301
Agriculture and fishing	677,142	20,618	(11,903)	685,857
Manufacturing	29,656,768	480,102	(348,228)	29,788,642
Electricity, water, gas and health services	10,124,612	9,021	(4,362)	10,129,271
Building and construction	13,340,121	585,742	(540,007)	13,385,856
Commerce	34,646,562	1,221,753	(1,076,443)	34,791,872
Transportation and communication	12,805,082	25,583	(23,715)	12,806,950
Services	16,736,394	47,857	(40,168)	16,744,083
Consumer loans and credit cards	62,765,776	435,264	(329,079)	62,871,961
Others	3,333,430	89,380	(56,142)	3,366,668
	189,609,772	2,919,447	(2,433,927)	190,095,292
Portfolio (collective) provision				(2,408,255)
Loans and advances, net				187,687,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

7. LOANS AND ADVANCES, NET (continued)

(7.6) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Gross receivables from finance leases:		
Less than 1 year	**1,070,196**	976,288
1 to 5 years	**8,642,045**	7,793,157
Over 5 years	**16,330,205**	12,699,540
	26,042,446	21,468,985
Unearned finance income on finance leases	**(7,067,897)**	(4,478,875)
Net receivables from finance leases	**18,974,549**	16,990,110

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 426 million (31 December 2013: SR 321 million).

8. INVESTMENT IN ASSOCIATES, NET

	As at		
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000	31 December 2013 (Audited) SR '000
Cost:			
At 1 January	**1,487,450**	1,487,450	1,487,450
Disposals (note (b))	**(473,450)**	-	-
At 30 June/31 December	**1,014,000**	1,487,450	1,487,450
Provision for impairment and share of losses:			
At beginning of the period	**(658,535)**	(654,819)	(654,819)
Reversal (additions), net (note 8 (b) and 26))	**52,370**	(2,069)	(3,716)
At 30 June	**(606,165)**	(656,888)	(658,535)
Investment in associates, net	**407,835**	830,562	828,915

a) Investment in associates represents a 60% (31 December 2013: 60%) ownership interest in the Commercial Real Estate Markets Company and 30% (31 December 2013: 30%) ownership interest in Al-Ahli Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

b) During the six month period ended 30 June 2014, an associate of the Bank (Al Behar Real Estate Investment Company ("the associate") distributed its capital among the shareholders as a part of its liquidation process and as a consideration transferred the title of certain real estate properties to the Bank. Accordingly, the Bank received properties having a value of SR 473.4 million, as a result of this, the Bank has reversed previously recognized impairment losses in respect of the associate amounting to SR 253.7 million. Subsequent to the transfer of legal title, the Bank has leased these properties ("leased properties") under an Ijara arrangement for a period of 5 years and recognized a gain on derecognition of the leased properties amounting to SR 146.6 million which is recognised in the consolidated statement of income as a part of 'other non-operating income (expenses), net' (see note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

9. OTHER REAL ESTATE, NET

	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000	31 December 2013 (Audited) SR '000
Cost:			
At 1 January	**285,972**	304,822	304,822
Additions (notes 7.3 and 8(b))	**1,138,712**	21,429	49,552
Disposals (note 8(b))	**(496,692)**	(19,553)	(68,402)
At 30 June/31 December	**927,992**	306,698	285,972
Provision and foreign currency translation:			
Foreign currency translation adjustment	**(20,449)**	(14,638)	(20,493)
Provision for unrealized revaluation losses	**(46,399)**	(76,450)	(49,478)
At 30 June/31 December	**(66,848)**	(91,088)	(69,971)
Total	**861,144**	215,610	216,001

10. PROPERTY AND EQUIPMENT, NET

	As at								
	30 June 2014 (Audited)			30 June 2013 (Unaudited)			31 December 2013 (Audited)		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000	Land, and leasehold improvement SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:									
At 1 January	**3,247,168**	**2,698,413**	**5,945,581**	2,951,701	2,402,233	5,353,934	2,951,701	2,402,233	5,353,934
Foreign currency translation adjustment	**106**	**231**	**337**	(14,923)	(26,728)	(41,651)	(32,174)	(58,271)	(90,445)
Additions	**671,808**	**342,336**	**1,014,144**	91,164	93,521	184,685	328,259	422,745	751,004
Disposals and retirements	**(42,386)**	**(72,122)**	**(114,508)**	(311)	(1,216)	(1,527)	(618)	(68,294)	(68,912)
At 30 June/31 December	**3,876,696**	**2,968,858**	**6,845,554**	3,027,631	2,467,810	5,495,441	3,247,168	2,698,413	5,945,581
Accumulated depreciation:									
At 1 January	**1,443,600**	**1,740,453**	**3,184,053**	1,316,595	1,487,443	2,804,038	1,316,595	1,487,443	2,804,038
Foreign currency translation adjustment	**44**	**122**	**166**	(5,400)	(17,180)	(22,580)	(12,436)	(39,209)	(51,645)
Charge for the period/year	**64,488**	**180,319**	**244,807**	68,830	163,377	232,207	139,721	338,169	477,890
Disposals and retirements	**(4,336)**	**(17,447)**	**(21,783)**	(321)	(1,715)	(2,036)	(280)	(45,950)	(46,230)
At 30 June/31 December	**1,503,796**	**1,903,447**	**3,407,243**	1,379,704	1,631,925	3,011,629	1,443,600	1,740,453	3,184,053
Net book value:									
As at 30 June/31 December	**2,372,900**	**1,065,411**	**3,438,311**	1,647,927	835,885	2,483,812	1,803,568	957,960	2,761,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	As at					
	30 June 2014 (Audited)		30 June 2013 (Unaudited)		31 December 2013 (Audited)	
	Goodwill SR '000	**Other intangibles SR '000**	Goodwill SR '000	Other intangibles SR '000	Goodwill SR '000	Other intangibles SR '000
Cost:						
At 1 January	**1,330,927**	**1,043,001**	1,579,854	1,238,076	1,579,854	1,238,076
Foreign currency translation adjustment	**790**	**619**	(114,628)	(89,830)	(248,927)	(195,075)
At 30 June/31 December	**1,331,717**	**1,043,620**	1,465,226	1,148,246	1,330,927	1,043,001
Amortisation, impairment and foreign currency						
At 1 January	**790,030**	**710,262**	937,792	708,040	937,792	708,040
Amortisation charge	-	**94,668**	-	94,668	-	189,337
Foreign currency translation adjustment	**484**	**(37,718)**	(68,043)	(83,424)	(147,762)	(187,115)
At 30 June/31 December	**790,514**	**767,212**	869,749	719,284	790,030	710,262
Net book value:						
At 30 June/31 December	**541,203**	**276,408**	595,477	428,961	540,897	332,739

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out an impairment test in respect of the goodwill arising on the acquisition of Türkiye Finans Katılım Bankası A.Ş. (TFK). The recoverable amount of TFK has been determined based on the higher of value in use or fair value less cost to sell. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business.

An average discount rate of 14.5% (31 December 2013: 14.2%) was used to discount future cash flows over a five year period.

A real long term growth rate of 4% (31 December 2013: 4%) was used in the terminal value calculation which is in accordance with the latest "The Organisation for Economic Co-operation and Development" (OECD) estimates.

Using the above rates, the recoverable amount based on value in use as at May 2014 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised as at 30 June 2014 in respect of TFK (31 December 2013: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. OTHER ASSETS

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	**16,120**	22,851
- investments	**998,772**	812,979
- loans and advances	**985,085**	787,065
- derivatives	**128,204**	45,679
Total accrued special commission income receivable	**2,128,181**	1,668,574
Prepayments and accounts receivable	**487,268**	404,645
Margin deposits against derivatives and repos (notes 6.3, 14 and 31)	**541,336**	437,307
Positive fair value of derivatives, net (note 13)	**642,471**	503,733
Assets purchased - Murabaha	**1,009,295**	1,607,462
Others	**2,366,847**	1,076,464
Total	**7,175,398**	5,698,185

13. DERIVATIVES

In the ordinary course of business, the Group utilizes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

13. DERIVATIVES (continued)

(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.

(13.1) 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.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 31 - credit risk, note 32 - market risk and note 33 - liquidity 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 have 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 have 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

13. DERIVATIVES (continued)

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 year end, 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.

			(SR '000) Notional amounts by term to maturity					
30 June 2014 (Audited)	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	**264,799**	**(243,774)**	**32,930,498**	**102,006**	**1,238,440**	**26,259,610**	**5,330,441**	**30,424,052**
Special commission rate options and futures	**27,470**	**(27,725)**	**1,074,537**	**-**	**-**	**-**	**1,074,537**	**249,090**
Forward foreign exchange contracts	**66,776**	**(40,201)**	**75,358,137**	**49,001,123**	**22,269,423**	**4,087,591**	**-**	**70,794,891**
Options	**5,597**	**(5,023)**	**566,951**	**168,883**	**215,568**	**182,500**	**-**	**803,725**
Structured derivatives	**207,786**	**(208,692)**	**72,233,190**	**7,674,341**	**31,096,533**	**33,312,316**	**150,000**	**94,848,437**
Held as fair value hedges:								
Special commission rate swaps	**528**	**(258,696)**	**7,151,296**	**-**	**-**	**2,980,084**	**4,171,211**	**6,151,317**
Held as cash flow hedges:								
Special commission rate swaps	**69,515**	**(58,380)**	**9,742,728**	**200,000**	**937,500**	**5,834,157**	**2,771,071**	**8,857,557**
Total fair value, net (notes 12 and 17)	**642,471**	**(842,491)**	**199,057,337**	**57,146,353**	**55,757,464**	**72,656,258**	**13,497,260**	

			(SR '000) Notional amounts by term to maturity					
31 December 2013 (Audited)	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	197,790	(187,164)	18,630,107	-	729,836	16,465,104	1,435,166	12,952,404
Special commission rate options and futures	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	117,001	(90,446)	59,929,689	43,592,590	16,320,205	16,894	-	58,024,978
Options	1,860	(1,860)	660,509	545,872	114,636	-	-	3,700,735
Structured derivatives	155,251	(155,664)	42,491,314	5,940,282	18,668,254	17,882,778	-	49,037,201
Held as fair value hedges:								
Special commission rate swaps	-	(155,041)	843,750	-	-	843,750	-	843,750
Held as cash flow hedges:								
Special commission rate swaps	31,831	(48,246)	7,349,059	-	200,000	4,796,559	2,352,500	8,584,364
Total fair value, net (notes 12 and 17)	503,733	(638,421)	129,904,428	50,078,744	36,032,931	40,005,085	3,787,666	

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13. DERIVATIVES (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

30 June 2014 (Audited)	**Fair value**	**Cost**	**Risk**	**Hedging instrument** (SR '000)	**Positive fair value**	**Negative fair value**
Description of hedged items						
Fixed rate instruments	**7,637,489**	**7,210,754**	Fair value	Special commission rate swap	**528**	**(258,696)**
Fixed rate and floating rate instruments	**9,813,511**	**9,742,728**	Cash flow	Special commission rate swap	**69,515**	**(58,380)**

31 December 2013 (Audited)	Fair value	Cost	Risk	Hedging instrument (SR '000)	Positive fair value	Negative fair value
Description of hedged items						
Fixed rate instruments	1,010,045	843,750	Fair value	Special commission rate swap	-	(155,041)
Fixed rate and floating rate instruments	7,386,839	7,349,059	Cash flow	Special commission rate swap	31,831	(48,246)

The net losses on the hedging instruments for fair value hedges are SR 104 million (31 December 2013: SR 58 million). The net gains on the hedged items attributable to the hedged risk are SR 104 million (31 December 2013: SR 58 million). Thus, the net fair value is SR nil (31 December 2013: SR nil).

Approximately 1% (31 December 2013: 9%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 99% (31 December 2013: 91%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Below is the schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect consolidated statement of income:

	Within 1 year	**SR' 000** **1-3 years**	**3-5 years**	**Over 5 years**
30 June 2014 (Audited)				
Cash inflows (assets)	**159,300**	**300,229**	**343,530**	**110,114**
Cash outflows (liabilities)	**(125,522)**	**(279,572)**	**(303,491)**	**(162,641)**
Net cash inflows (outflows)	**33,778**	**20,657**	**40,039**	**(52,527)**

	Within 1 year	SR' 000 1-3 years	3-5 years	Over 5 years
31 December 2013 (Audited)				
Cash inflows (assets)	220,922	319,727	150,280	207,842
Cash outflows (liabilities)	(171,632)	(275,242)	(180,589)	(311,737)
Net cash inflows (outflows)	49,290	44,485	(30,309)	(103,895)

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13. DERIVATIVES (continued)

Cash flows hedges (continued)

The net gain on cash flow hedges reclassified to the consolidated statement of income during the period was as follows:

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Special commission income	**130,855**	108,130
Special commission expense	**(122,184)**	(88,448)
Net gain on cash flow hedges reclassified to the consolidated statement of income	**8,671**	19,682

Movements in the other reserve of cash flows hedges:

	As at		
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000	31 December 2013 (Audited) SR '000
Balance at 1 January	**30,795**	91,359	91,359
Net gain on cash flow hedges reclassified to the consolidated statement of income	**(12,716)**	(19,682)	(40,161)
Gain/(loss) from changes in fair value recognised directly in equity, net (effective portion)	**36,221**	(5,853)	(20,403)
Balance at 30 June/31 December	**54,300**	65,824	30,795

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative gains of SR 4 million (31 December 2013: SR 10.8 million and 30 June 2013: SR nil) from equity to consolidated statement of income, included in the gains above.

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14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Current accounts	**3,445,978**	2,970,409
Money market deposits	**19,828,960**	14,467,698
Repos (note 6.3)	**2,923,546**	7,287,207
Total	**26,198,484**	24,725,314

15. CUSTOMERS' DEPOSITS

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Current accounts	**262,806,990**	234,988,516
Savings	**155,834**	148,015
Time	**66,320,728**	53,095,364
Others	**16,313,538**	12,369,780
Total	**345,597,090**	300,601,675

Other customers’ deposits include SR 4,077 million (31 December 2013: SR 3,531 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Current accounts	**28,586,981**	30,137,011
Savings	**349**	374
Time	**37,601,905**	31,415,619
Others	**1,310,890**	1,266,922
Total	**67,500,125**	62,819,926

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16. DEBT SECURITIES ISSUED

a) SUKUK ISSUED BY THE BANK

During the six month period ended 30 June 2014, the Bank issued a 10 years floating rate Sukuk certificate amounting to SR 5 billion through a private placement. The Sukuk is callable by Bank on the 5th anniversary of the issue date and carries profit at SIBOR plus 100bps payable semi-annualy.

b) SUKUKS ISSUED BY TFK

During May 2013, TFK, issued 5 year fixed rate non-convertible Sukuk certificates amounting to US $500 million (SR 1,875 million). The certificates are listed on the Irish Stock Exchange and carry a fixed rate of 3.95% payable semi-annually.

During January 2014, TFK issued 6 months fixed rate non-convertible sukuk certificates amounting to TRY 100 million (SR 176 million). The certificates are listed on the Borsa Istanbul and carry a fixed rate of 10.10% payable quarterly.

During April 2014, TFK issued 5 year fixed rate non-convertible sukuk certificates amounting to US $500 million (SR 1,875 million). The certificates are listed on the Irish Stock Exchange and carry a fixed rate of 5.37% payable semi-annually.

During June 2014, TFK issued 5 year fixed rate non-convertible sukuk certificates amounting to Malaysian Ringgit 800 million (SR 938 million) through private placement. The certificates carry a fixed rate of 6% payable semi-annually.

17. OTHER LIABILITIES

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	**64,142**	35,259
- customers' deposits	**212,610**	206,296
- debt securities issued	**65,571**	10,114
- derivatives	**198,632**	55,451
Total accrued special commission expense payable	**540,955**	307,120
Negative fair value of derivatives (note 13)	**842,491**	638,421
Zakat (NCB and NCBC)	**230,140**	889,876
Staff-related payables	**1,891,725**	1,533,539
Accrued expenses and accounts payable	**855,606**	1,083,921
Provisions against indirect facilities (note 7.3)	**495,665**	430,503
Others	**3,021,742**	3,022,535
Total	**7,878,324**	7,905,915

18. 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 2013: 1,500,000,000 shares of SR 10 each) wholly owned by Saudi shareholders. The capital of the Bank excluding treasury shares (see note 42) consists of 1,994,633,531 shares of SR 10 each (31 December 2013: 1,495,975,148 shares of SR 10 each).

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 December 2013). During the six month period ended 30 June 2014, the increase was approved by SAMA, Ministry of Commerce and Industry and the shareholders of the Bank.

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19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to the Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

Any transfer to statutory reserve is made on an annual basis at the end of each financial year. The statutory reserves are not available for distribution.

20. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the period is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity. These reserves are not available for distribution.

21. COMMITMENTS AND CONTINGENCIES

(21.1) Legal proceedings

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

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

Although the judgment dismissing plaintiffs’ claims against the Bank became final upon denial of the petition for rehearing, the plaintiffs on 9 September 2013 sought a discretionary further (and final) review of the Court of Appeals’ decision by way of a petition to the United States Supreme Court for a writ of certiorari. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common brief in opposition to the plaintiffs’ petition for certiorari, which was filed in November 2013. In an order entered on 16 December 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S. Government.

In a brief filed on 27 May 2014, the Solicitor General expressed “the view of the United States [that] the petition for certiorari should be denied.” The plaintiffs filed a supplemental brief on 9 June 2014 disagreeing with the views of the United States.

On 30 June 2014, the Supreme Court issued an order denying the plaintiffs’ petition for a writ of certiorari (“order of denial”). The plaintiffs may submit a petition for rehearing of the order of denial not later than 25 July 2014. However, the Court’s rules provide that the order of denial “will not be suspended pending disposition of a petition for rehearing” absent a further order of the Court, and that a petition for rehearing must be limited strictly to “intervening circumstances of a substantial or controlling effect or to other substantial grounds not previously presented.”

The Bank’s legal counsel believes that plaintiffs cannot in good faith satisfy the rule governing a petition for rehearing given that the Court’s order of denial was entered shortly after plaintiffs’ response to the Solicitor General’s brief, which addressed all relevant issues. Further, the Bank’s legal counsel believes that the Court would not suspend its order of denial in the unlikely event that plaintiffs submit a petition for rehearing. The Bank accordingly has been advised that these legal proceedings were substantively concluded as against it as of the 30 June 2014 date of the Court’s order of denial.

(21.2) Capital and other non-credit related commitments

The Group's capital commitments as at 30 June 2014 and 31 December 2013 in respect of building and equipment purchases are not material to the consolidated financial position of the Group.

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21. COMMITMENTS AND CONTINGENCIES (continued)

(21.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
30 June 2014 (Audited)	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letter of credit	**13,714,549**	**4,418,241**	**492,646**	**7,967**	**18,633,403**
Guarantees	**10,653,446**	**22,072,406**	**12,412,497**	**5,557,032**	**50,695,381**
Acceptances	**2,471,882**	**1,238,059**	**19,757**	**12,820**	**3,742,518**
Irrevocable commitments to extend credit	-	**523,304**	**7,599,513**	**335,510**	**8,458,327**
Total	**26,839,877**	**28,252,010**	**20,524,413**	**5,913,329**	**81,529,629**

			(SR '000)		
31 December 2013 (Audited)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letter of credit	16,731,014	2,808,346	920,100	14,020	20,473,480
Guarantees	10,957,279	19,875,983	11,998,811	5,321,763	48,153,836
Acceptances	2,118,005	1,200,104	55,218	7,693	3,381,020
Irrevocable commitments to extend credit	-	876,220	8,448,376	341,250	9,665,846
Total	29,806,298	24,760,653	21,422,505	5,684,726	81,674,182

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21. COMMITMENTS AND CONTINGENCIES (continued)

(21.3) Credit-related commitments and contingencies

(b) The analysis of commitments and contingencies by counterparty is as follows:

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Government and quasi Government	**6,000,291**	5,976,544
Corporate and establishment	**60,038,899**	58,252,497
Banks and other financial institutions	**14,463,241**	16,583,853
Others	**1,027,198**	861,288
Total	**81,529,629**	81,674,182

(21.4) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	As at		
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000	31 December 2013 (Audited) SR '000
Less than 1 year	**229,246**	241,864	222,329
1 to 5 years	**608,825**	669,680	606,025
Over 5 years	**447,993**	522,356	465,941
Total	**1,286,064**	1,433,900	1,294,295

22. NET SPECIAL COMMISSION INCOME

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Special commission income:		
Investments - available for sale	**298,768**	241,273
Investments - held to maturity	**20,797**	26,043
Other investments held at amortised cost	**1,257,102**	1,086,026
Sub total - investments	**1,576,667**	1,353,342
Due from banks and other financial institutions	**55,848**	50,236
Loans and advances	**4,934,753**	4,540,251
Total	**6,567,268**	5,943,829
Special commission expense:		
Due to banks and other financial institutions	**166,382**	132,224
Customers' deposits	**808,290**	720,445
Debt securities issued	**92,440**	12,027
Total	**1,067,112**	864,696
Net special commission income	**5,500,156**	5,079,133

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23. FEE INCOME FROM BANKING SERVICES, NET

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Fee income:		
Shares brokerage	**257,375**	194,960
Investment management services	**143,478**	129,066
Finance and lending	**847,161**	845,597
Credit cards	**145,885**	124,804
Trade finance	**349,081**	382,199
Others	**118,831**	84,501
Total	**1,861,811**	1,761,127
Fee expenses:		
Shares brokerage	**(49,159)**	(33,185)
Investment management services	**(3,391)**	(5,420)
Credit cards	**(85,793)**	(64,123)
Others	**(8,134)**	(6,729)
Intergroup	**(1,297)**	1,297
Total	**(146,477)**	(109,457)
Fees from banking services, net	**1,715,334**	1,651,670

Others includes fees from miscellaneous banking activities.

24. TRADING INCOME, NET

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Foreign exchange	**(2,543)**	29,021
Mutual funds	**2,827**	3,441
Derivatives	**50,532**	20,667
Total	**50,816**	53,129

25. GAINS ON NON-TRADING INVESTMENTS, NET

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Gains on available for sale investments, net	**259,517**	451,804
Gains on other investments held at amortised cost, net	**81,878**	75,134
Total	**341,395**	526,938

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26. OTHER NON-OPERATING INCOME (EXPENSES), NET

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Income tax of foreign operations	**(70,998)**	(76,892)
Bank's share in associates' (losses) and reversal (impairment), net (note 8)	**52,370**	(2,069)
Gain on disposal of property and equipment and other real estate (note 8 (b))	**161,720**	9,063
Net other income	**(1,593)**	8,793
Total	**141,499**	(61,105)

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the period ended 30 June 2014 and 30 June 2013 is calculated by dividing the net income attributable to equity holders of the Bank for the period by the weighted average number of shares outstanding during the period (see note 18). The comparative figure has been recalculated to account for the impact of the bonus issue (see note 18).

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

28. NET DIVIDEND AND ZAKAT

On 17 July 2014, the Board of Directors approved an interim dividend of SR 1,595.7 million (SR 0.80 per share), (30 June 2013: SR 1,196.8 million, SR 0.80 per share). In accordance with the requirement of International Financial Reporting Standards, interim dividends declared by the Board of Directors after the balance sheet date will be accounted for in the third quarter of 2014.

Zakat assessments have been finalized with the Department of Zakat and Income Tax (DZIT) for all years up to 2011, requiring an additional Zakat charge of SR 100.6 million. The Bank has submitted zakat returns for the years 2012 and 2013 and obtained limited zakat certificates. The zakat returns for the years 2012 and 2013 are currently under review by DZIT and the zakat assessment for these years is awaited.

29. CASH AND CASH EQUIVALENTS

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

	As at	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**12,188,603**	14,559,502
Due from banks and other financial institutions with original maturity of three months or less (note 5)	**8,983,068**	4,966,863
Total	**21,171,671**	19,526,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. OPERATING SEGMENTS

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

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

Retail - Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals and private banking customers.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to small sized businesses medium and large establishments and companies.

Treasury - Provides a full range of treasury products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market - Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).

International - Comprises banking services provided outside Saudi Arabia including TFK and the Bank's Beirut branch.

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

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

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30. OPERATING SEGMENTS (continued)

(30.1) The Group's total assets and liabilities at period/year end, its operating income and expenses (total and main items) and net income for the period/year, by business segments, are as follows:

(30.1.1) The Group's total assets and liabilities at period/year end, by business segments as follows:

	(SR '000)					
	Retail	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
30 June 2014 (Audited)						
Total assets	**84,929,301**	**116,345,498**	**180,693,682**	**1,314,441**	**52,247,118**	**435,530,040**
Total liabilities	**151,898,832**	**169,359,794**	**23,301,341**	**186,692**	**44,428,953**	**389,175,612**
31 December 2013 (Audited)						
Total assets	75,283,303	102,655,440	151,186,129	1,217,883	46,937,579	377,280,334
Total liabilities	147,537,332	132,618,779	17,382,034	262,079	36,943,930	334,744,154

(30.1.2) The Group's operating income and expenses (total and main items) and net income for the period, by business segments as follows:

	(SR '000)					
	Retail	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
30 June 2014 (Audited)						
Fee income from banking services, net	**523,398**	**544,505**	**-**	**373,165**	**274,266**	**1,715,334**
Operating income	**2,839,957**	**1,826,376**	**1,990,059**	**393,603**	**1,029,378**	**8,079,373**
Operating expenses of which:	**2,182,495**	**(229,737)**	**264,538**	**177,368**	**791,851**	**3,186,515**
- Depreciation of property and equipment	**149,939**	**24,592**	**16,272**	**9,402**	**44,602**	**244,807**
- Impairment charge for credit losses, net	**630,080**	**(621,271)**	**-**	**-**	**105,074**	**113,883**
- Impairment charge on investments, net	**-**	**-**	**84,656**	**13,171**	**-**	**97,827**
Net income (Bank and non-controlling interests)	**603,551**	**2,381,364**	**1,649,850**	**203,678**	**195,914**	**5,034,357**

	(SR '000)					
	Retail	Corporate	Treasury	Capital Market	International	Total
30 June 2013 (Unaudited)						
Fee income from banking services, net	543,744	507,442	-	310,814	289,670	1,651,670
Operating income	2,694,362	1,708,775	1,916,841	328,505	1,117,167	7,765,650
Operating expenses of which:	1,644,893	456,337	196,562	203,574	798,218	3,299,584
- Depreciation of property and equipment	146,844	25,233	15,764	7,957	36,409	232,207
- Impairment charge for credit losses, net	169,417	90,306	-	-	156,186	415,909
- Impairment charge on investments, net	-	-	22,157	-	-	22,157
Net income (Bank and non-controlling interests)	1,078,337	1,248,682	1,727,823	129,253	220,866	4,404,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. OPERATING SEGMENTS (continued)

(30.2) The Group's credit exposure at period/year end, by business segments

	(SR '000)					
	Retail	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
30 June 2014 (Audited)						
Statement of financial position assets	**66,512,767**	**105,876,815**	**166,757,388**	**122,356**	**46,586,114**	**385,855,440**
Commitments and contingencies (credit equivalent)	**239,056**	**25,785,505**	-	-	**16,116,009**	**42,140,570**
Derivatives (credit equivalent)	-	-	**2,083,987**	-	**140,865**	**2,224,852**

	(SR '000)					
	Retail	Corporate	Treasury	Capital Market	International	Total
31 December 2013 (Audited)						
Statement of financial position assets	58,975,796	95,366,169	126,661,224	141,613	42,996,090	324,140,892
Commitments and contingencies (credit equivalent)	302,106	24,757,199	-	-	14,281,519	39,340,824
Derivatives (credit equivalent)	-	-	1,206,028	-	149,394	1,355,422

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

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31. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products and loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the loans and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in note (13) and for commitments and contingencies in note (21). The information on the Bank's total maximum credit exposure is given in note (31.1).

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 7.4). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Group holds real estate collateral against transfer of title deed (*ifrag*) as a collateral but due to the difficulty in seizing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Financial instruments such as loans and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. The positive and negative fair values of derivatives are shown gross on the consolidated statement of financial position and no offsetting has been done (see notes 12 and 13). Collateral generally is not held against due from banks and other financial institutions, except when securities are held as part of reverse repurchase agreements (see note 5). The carrying amount and fair value of securities pledged and the margin deposit under agreements to repurchase (repo) are disclosed in notes 6.3, 12 and 14. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2014 and 31 December 2013.

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31. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.14 and 2.5(a)) for accounting policy of impairment of financial assets].

(31.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Assets		
Due from banks and other financial institutions (note 5)	**20,919,042**	14,831,332
Investments (note 6.6)	**155,429,753**	119,012,909
Loans and advances, net (note 7.4)	**206,194,657**	187,687,037
Other assets - margin deposits against derivatives and repos, and accrued special commission income receivable (note 12)	**2,669,517**	2,105,881
Total assets	**385,212,969**	323,637,159
Contingent liabilities and commitments, net (note 30.2.1)	**42,140,570**	39,340,824
Derivatives - positive fair value, net (note 30.2.1)	**2,224,852**	1,355,422
Total maximum exposure	**429,578,391**	364,333,405

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32. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Group's Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(32.1) MARKET RISK-TRADING BOOK

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

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32. MARKET RISK (continued)

(32.1) MARKET RISK-TRADING BOOK (continued)

The table below shows the VaR related information for the six month period ended 30 June 2014, 30 June 2013 and for the year ended 31 December 2013 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
30 June 2014 (Audited)	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 30 June 2014	**34**	**91**	**125**	**272,374**
Average VaR for 2014 (six months)	**32**	**76**	**108**	**268,111**
31 December 2013 (Audited)				
VaR as at 31 Dec 2013	30	27	57	211,037
Average VaR for 2013 (twelve months)	26	26	52	189,540
30 June 2013 (Unaudited)				
VaR as at 30 June 2013	30	25	55	176,190
Average VaR for 2013 (six months)	30	33	63	176,322

(32.2) MARKET RISK - BANKING BOOK

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(32.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 30 June 2014, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 30 June 2014, 30 June 2013 and 31 December 2013 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

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30 JUNE 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

			SR '000 Sensitivity of equity (other reserves)				
30 June 2014 (Audited)	**Increase / decrease in basis points**	**Sensitivity of special commission income**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Currency							
SR	**± 10 ±**	**130,233 ±**	**3 ±**	**- ±**	**15,509 ±**	**17,088 ±**	**32,600**
USD	**± 10 ±**	**20,823 ±**	**17 ±**	**631 ±**	**15,226 ±**	**76,694 ±**	**92,568**

			SR '000 Sensitivity of equity (other reserves)				
31 December 2013 (Audited)	Increase / decrease in basis points	Sensitivity of special commission income	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10 ±	103,147 ±	- ±	102 ±	4,602 ±	14,903 ±	19,607
USD	± 10 ±	18,622 ±	40 ±	1,286 ±	14,937 ±	49,329 ±	65,592

			SR '000 Sensitivity of equity (other reserves)				
30 June 2013 (Unaudited)	Increase / decrease in basis points	Sensitivity of special commission income	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10 ±	15,314 ±	- ±	- ±	9,689 ±	15,747 ±	25,436
USD	± 10 ±	15,846 ±	- ±	1,080 ±	14,867 ±	113,298 ±	129,245

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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group’s exposure to special commission rate risks. Included in the table are the Group’s assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

			SR '000			
30 June 2014 (Audited)	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	5,515,962	-	-	-	26,564,853	32,080,815
Due from banks and other financial institutions	12,269,586	2,787,706	-	-	5,861,750	20,919,042
Investments, net	44,564,115	42,602,853	26,443,629	41,819,155	8,205,475	163,635,227
Loans and advances, net	54,864,441	66,638,908	73,495,100	10,931,628	264,580	206,194,657
Investment in associates, net	-	-	-	-	407,835	407,835
Other real estate, net	-	-	-	-	861,144	861,144
Property and equipment, net	-	-	-	-	3,438,311	3,438,311
Goodwill and other intangible assets, net	-	-	-	-	817,611	817,611
Other assets	-	-	-	-	7,175,398	7,175,398
Total assets	117,214,104	112,029,467	99,938,729	52,750,783	53,596,957	435,530,040
Liabilities and equity						
Due to banks and other financial institutions	18,249,217	5,729,475	1,622,037	-	597,755	26,198,484
Customers' deposits	45,807,878	18,688,434	2,865,747	-	278,235,031	345,597,090
Debt securities issued	176,156	3,000,000	4,325,558	2,000,000	-	9,501,714
Other liabilities	-	-	-	-	7,878,324	7,878,324
Equity attributable to equity holders of the Bank	-	-	-	-	44,607,731	44,607,731
Non-controlling interests	-	-	-	-	1,746,697	1,746,697
Total liabilities and equity	64,233,251	27,417,909	8,813,342	2,000,000	333,065,538	435,530,040
On-balance sheet gap	52,980,853	84,611,558	91,125,387	50,750,783	(279,468,581)	
Off-balance sheet gap	5,092,378	(1,216,460)	(2,275,006)	(1,600,912)	-	
Total special commission rate sensitivity gap	58,073,231	83,395,098	88,850,381	49,149,871	(279,468,581)	
Cumulative special commission rate sensitivity gap	58,073,231	141,468,329	230,318,710	279,468,581	-	

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30 JUNE 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

SR '000

30 June 2013 (Unaudited)	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	9,734,933	-	-	-	21,682,122	31,417,055
Due from banks and other financial institutions	6,526,731	1,012,400	-	-	5,175,946	12,715,077
Investments, net	20,231,192	31,422,385	35,329,436	36,112,916	6,261,895	129,357,824
Loans and advances, net	39,787,910	61,348,007	69,002,106	7,827,625	242,166	178,207,814
Investment in associates, net	-	-	-	-	830,563	830,563
Other real estate, net	-	-	-	-	215,610	215,610
Property and equipment, net	-	-	-	-	2,483,811	2,483,811
Goodwill and other intangible assets, net	-	-	-	-	1,024,438	1,024,438
Other assets	-	-	-	-	6,544,061	6,544,061
Total assets	76,280,766	93,782,792	104,331,542	43,940,541	44,460,612	362,796,253
Liabilities and equity						
Due to banks and other financial institutions	17,875,832	2,010,665	4,070,762	-	291,673	24,248,932
Customers' deposits	39,001,335	15,295,359	272,131	-	233,476,259	288,045,084
Debt securities issued	-	-	1,511,250	-	-	1,511,250
Other liabilities	-	-	-	-	7,368,665	7,368,665
Equity attributable to equity holders of the Bank	-	-	-	-	39,912,141	39,912,141
Non-controlling interests	-	-	-	-	1,710,181	1,710,181
Total liabilities and equity	56,877,167	17,306,024	5,854,143	-	282,758,919	362,796,253
On-balance sheet gap	19,403,599	76,476,768	98,477,399	43,940,541	(238,298,307)	
Off-balance sheet gap	927,434	(619,434)	(2,098,000)	1,790,000	-	
Total special commission rate sensitivity gap	20,331,033	75,857,334	96,379,399	45,730,541	(238,298,307)	
Cumulative special commission rate sensitivity gap	20,331,033	96,188,367	192,567,766	238,298,307	-	

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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

	SR '000					
31 December 2013 (Audited)	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	17,182,881	-	-	-	21,906,807	39,089,688
Due from banks and other financial institutions	7,587,234	1,387,400	-	-	5,856,698	14,831,332
Investments, net	28,865,401	27,361,052	26,678,227	36,108,227	6,281,105	125,294,012
Loans and advances, net	41,276,826	65,172,535	72,553,934	8,302,473	381,269	187,687,037
Investment in associates, net	-	-	-	-	828,915	828,915
Other real estate, net	-	-	-	-	216,001	216,001
Property and equipment, net	-	-	-	-	2,761,528	2,761,528
Goodwill and other intangible assets, net	-	-	-	-	873,636	873,636
Other assets	-	-	-	-	5,698,185	5,698,185
Total assets	94,912,342	93,920,987	99,232,161	44,410,700	44,804,144	377,280,334
Liabilities and equity						
Due to banks and other financial institutions	17,980,817	3,064,925	3,387,900	-	291,672	24,725,314
Customers' deposits	40,144,428	13,657,159	332,371	-	246,467,717	300,601,675
Debt securities issued	-	-	1,511,250	-	-	1,511,250
Other liabilities	-	-	-	-	7,905,915	7,905,915
Equity attributable to equity holders of the Bank	-	-	-	-	40,933,907	40,933,907
Non-controlling interests	-	-	-	-	1,602,273	1,602,273
Total liabilities and equity	58,125,245	16,722,084	5,231,521	-	297,201,484	377,280,334
On-balance sheet gap	36,787,097	77,198,903	94,000,640	44,410,700	(252,397,340)	
Off-balance sheet gap	927,434	(619,434)	(2,098,000)	1,790,000	-	
Total special commission rate sensitivity gap	37,714,531	76,579,469	91,902,640	46,200,700	(252,397,340)	
Cumulative special commission rate sensitivity gap	37,714,531	114,294,000	206,196,640	252,397,340	-	

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

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30 JUNE 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

At the period/year end, the Group had the following significant net exposures denominated in foreign currencies:

Currency	**30 June 2014 (Audited) Long (short) SR '000**	30 June 2013 (Unaudited) Long (short) SR '000	31 December 2013 (Audited) Long (short) SR '000
US Dollar	**229,602**	112,488	109,945
TRY	**4,673,418**	4,665,284	4,497,811

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 30 June 2014 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	30 June 2014 (Audited) SR '000			30 June 2013 (Unaudited) SR '000			31 December 2013 (Unaudited) SR '000		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity
TRY	**± 10%**	**± 19,422**	**467,342**	± 10%	± 20,640	± 466,528	± 10%	± 43,028	± 449,781

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30 JUNE 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Tadawul and held as available-for-sale at 30 June 2014 and 31 December 2013, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	30 June 2014 (Audited) SR '000		31 December 2013 (Audited) SR '000	
Market index - (Tadawul)	**Increase / decrease in market prices %**	**Effect on equity (other reserves)**	Increase / decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	**± 10%**	± 183,945	± 10%	± 268,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the period/year was as follows:

	30 June 2014 (Audited)	31 December 2013 (Audited)
	%	%
As at 30 June/31 December	**29%**	28%
Average during the period/year	**29%**	30%

(33.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 30 June 2014 and 31 December 2013 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (33.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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33. LIQUIDITY RISK (continued)

(33.1) Analysis of financial liabilities by remaining contractual maturities (continued)

			SR '000			
Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
30 June 2014 (Audited)						
Due to banks and other financial institutions	**3,445,978**	**17,413,320**	**4,673,547**	**1,037,386**	**-**	**26,570,231**
Customers' deposits	**278,444,809**	**45,740,538**	**18,851,866**	**2,888,826**	**-**	**345,926,039**
Debt securities issued	**-**	**176,156**	**232,095**	**5,548,090**	**7,042,772**	**12,999,113**
Derivative financial instruments (gross contractual amounts payable)	**-**	**14,333,203**	**31,364,256**	**37,338,804**	**3,916,905**	**86,953,168**
Total undiscounted financial liabilities	**281,890,787**	**77,663,217**	**55,121,764**	**46,813,106**	**10,959,677**	**472,448,551**

			SR '000			
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2013 (Audited)						
Due to banks and other financial institutions	2,970,409	17,331,682	2,755,151	2,059,092	-	25,116,334
Customers' deposits	246,713,336	40,093,882	13,791,799	350,920	-	300,949,937
Debt securities issued	-	-	61,230	1,735,756	-	1,796,986
Derivative financial instruments (gross contractual amounts payable)	-	43,603,775	34,741,227	19,180,814	554,444	98,080,260
Total undiscounted financial liabilities	249,683,745	101,029,339	51,349,407	23,326,582	554,444	425,943,517

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.3(a)).

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33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (33.1) above for the contractual undiscounted financial liabilities.

			(SR '000)		
30 June 2014 (Audited)	**0-30 days**	**1 to 12 months**	**Over 1 year**	**No-fixed maturity**	**Total**
Assets					
Cash and balances with SAMA	5,515,962	-	6,672,642	19,892,211	32,080,815
Due from banks and other financial institutions	2,394,878	1,035,129	17,489,035	-	20,919,042
Investments, net	16,728,169	40,223,427	100,938,754	5,744,877	163,635,227
Loans and advances, net	19,460,588	70,920,101	115,813,969	-	206,194,657
Investment in associates, net	-	-	-	407,835	407,835
Other real estate, net	-	-	-	861,144	861,144
Property and equipment, net	-	-	-	3,438,311	3,438,311
Goodwill and other intangible assets, net	9,490	104,395	162,523	541,203	817,611
Other assets	-	-	-	7,175,398	7,175,398
Total assets	44,109,087	112,283,052	241,076,923	38,060,979	435,530,040
Liabilities and equity					
Due to banks and other financial institutions	8,875,674	770,935	13,105,896	3,445,979	26,198,484
Customers' deposits	17,416,242	8,373,995	57,765,432	262,041,421	345,597,090
Debt securities issued	176,156	-	9,325,558	-	9,501,714
Other liabilities	-	-	-	7,878,324	7,878,324
Total liabilities	26,468,072	9,144,930	80,196,886	273,365,724	389,175,612
Total equity	-	-	-	46,354,428	46,354,428
Total liabilities and equity	26,468,072	9,144,930	80,196,886	319,720,152	435,530,040

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30 JUNE 2014

33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(SR '000)

31 December 2013 (Audited)	0-30 days	1 to 12 months	Over 1 year	No-fixed maturity	Total
Assets					
Cash and balances with SAMA	17,182,881	-	5,102,343	16,804,464	39,089,688
Due from banks and other financial institutions	1,645,353	721,162	12,464,817	-	14,831,332
Investments, net	5,738,020	24,142,043	89,141,047	6,272,902	125,294,012
Loans and advances, net	39,050,708	44,005,059	104,631,270	-	187,687,037
Investment in associates, net	-	217,840	-	611,075	828,915
Other real estate, net	-	-	-	216,001	216,001
Property and equipment, net	-	-	-	2,761,528	2,761,528
Goodwill and other intangible assets, net	9,486	104,335	218,918	540,897	873,636
Other assets	-	-	-	5,698,185	5,698,185
Total assets	63,626,448	69,190,439	211,558,395	32,905,052	377,280,334
Liabilities and equity					
Due to banks and other financial institutions	14,504,190	402,819	6,847,909	2,970,396	24,725,314
Customers' deposits	13,767,007	6,629,748	45,762,004	234,442,916	300,601,675
Debt securities issued	-	-	1,511,250	-	1,511,250
Other liabilities	-	-	-	7,905,915	7,905,915
Total liabilities	28,271,197	7,032,567	54,121,163	245,319,227	334,744,154
Total equity	-	-	-	42,536,180	42,536,180
Total liabilities and equity	28,271,197	7,032,567	54,121,163	287,855,407	377,280,334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(34.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at period/year end is as follows:

			(SR '000)			
30 June 2014 (Audited)	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	30,128,776	224,136	1,082,847	534,630	110,426	32,080,815
Due from banks and other financial institutions	6,930,666	2,222,144	730,953	10,548,192	487,087	20,919,042
Investments, net	71,502,568	34,105,394	6,509,680	3,412,616	48,104,969	163,635,227
Loans and advances, net	164,343,939	1,697,219	3,523,171	35,538,399	1,091,929	206,194,657
Investment in associates, net	407,835	-	-	-	-	407,835
Goodwill and other intangible assets, net	-	-	-	817,611	-	817,611
Total	273,313,784	38,248,893	11,846,651	50,851,448	49,794,411	424,055,187
Liabilities						
Due to banks and other financial institutions	2,977,073	10,420,935	1,004,609	8,018,031	3,777,836	26,198,484
Customers' deposits	314,694,313	417,670	24,689	30,429,289	31,129	345,597,090
Debt securities issued	5,000,000	-	-	4,501,714	-	9,501,714
Total	322,671,386	10,838,605	1,029,298	42,949,034	3,808,965	381,297,288
Commitments and contingencies (note 21.3)	48,049,093	4,893,560	1,176,248	16,673,920	10,736,808	81,529,629
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	26,034,607	966,965	976,675	9,506,233	4,656,090	42,140,570
Derivatives	1,385,082	226,268	472,637	140,865	-	2,224,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(SR '000)

31 December 2013 (Audited)	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	37,282,016	47,062	1,386,318	263,866	110,426	39,089,688
Due from banks and other financial institutions	4,289,007	1,649,642	765,358	7,756,561	370,764	14,831,332
Investments, net	48,187,286	24,768,304	4,753,176	2,443,653	45,141,593	125,294,012
Loans and advances, net	152,881,154	720,170	1,343,996	31,899,489	842,228	187,687,037
Investment in associates, net	828,915	-	-		-	828,915
Goodwill and other intangible assets, net	-	-	-	873,636	-	873,636
Total	243,468,378	27,185,178	8,248,848	43,237,205	46,465,011	368,604,620
Liabilities						
Due to banks and other financial institutions	393,064	10,050,553	630,754	7,080,023	6,570,920	24,725,314
Customers' deposits	273,373,233	296,464	24,652	26,857,411	49,915	300,601,675
Debt securities issued	-	-	-	1,511,250	-	1,511,250
Total	273,766,297	10,347,017	655,406	35,448,684	6,620,835	326,838,239
Commitments and contingencies (note 21.3)	51,852,554	1,629,267	2,033,437	15,697,651	10,461,273	81,674,182
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	26,043,287	590,241	610,143	8,234,742	3,862,411	39,340,824
Derivatives	805,038	178,520	222,400	149,464	-	1,355,422

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(34.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

	(SR '000)					
30 June 2014 (Audited)	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Non performing loans and advances	**1,939,544**	**-**	**-**	**936,276**	**-**	**2,875,820**
Less: specific provision	**(1,757,447)**	**-**	**-**	**(682,004)**	**-**	**(2,439,451)**
Net	**182,097**	**-**	**-**	**254,272**	**-**	**436,369**
31 December 2013 (Audited)						
Non performing loans and advances	2,140,598	-	-	778,849	-	2,919,447
Less: specific provision	(1,881,542)	-	-	(552,385)	-	(2,433,927)
Net	259,056	-	-	226,464	-	485,520

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most adavantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, due from/to banks and other financial institutions and debt securities issued which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments: Level 1: quoted prices in active markets for the same instrument.

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

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

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

	(SR '000)			
30 June 2014 (Audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	**-**	**642,471**	**-**	**642,471**
Financial assets designated at FVIS	**6,682**	**1,619,070**	**476,226**	**2,101,978**
Financial assets available for sale	**12,489,487**	**14,747,877**	**1,114,953**	**28,352,317**
Held for trading	**793,327**	**-**	**-**	**793,327**
Other investments held at amortized cost, net - fair value hedged	**-**	**6,544,415**	**-**	**6,544,415**
Total	**13,289,496**	**17,009,418**	**1,591,179**	**31,890,093**
Financial liabilites				
Derivative financial instruments	**-**	**842,491**	**-**	**842,491**

	(SR '000)			
31 December 2013 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	503,733	-	503,733
Financial assets designated at FVIS	6,039	1,592,122	473,854	2,072,015
Financial assets available for sale	15,238,429	11,351,195	1,072,204	27,661,828
Held for trading	673,077	-	-	673,077
Total	15,917,545	13,447,050	1,546,058	30,910,653
Financial liabilites				
Derivative financial instruments	-	638,421	-	638,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

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

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

Movement of level 3 is as follows:

	As at		
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000	31 December 2013 (Audited) SR '000
Balance at 1 January	**1,546,058**	1,606,133	1,606,133
Total gains/(losses) in consolidated statement of income and comprehensive income	**122,290**	31,190	(118,347)
Purchases	**14,711**	15,560	111,585
(Sales)	**(91,880)**	(240,007)	(294,003)
(Settlements)	**-**	(3,363)	(1,489)
Transfer to/(from) level 3	**-**	242,177	242,179
Balance at 30 June/31 December	**1,591,179**	1,651,690	1,546,058

37. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(37.1) The balances included in the consolidated financial statements are as follows:

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Group's Board of Directors and senior executives:		
Loans and advances	**104,025**	109,455
Customers' deposits	**63,645**	51,430
Commitment and contingencies	**8,925**	14,014
Investments	**4,566**	4,247
Other liabilities - end of service benefits	**15,388**	14,702
Major shareholders:		
Customers' deposits	**22,388,333**	18,823,547
Investments	**239,513**	237,029
Commitments and contingencies	**107,953**	-
Bank's mutual funds:		
Investments	**682,368**	652,345
Customers' deposits	**821,704**	242,278

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

37. RELATED PARTY TRANSACTIONS (continued)

(37.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Special commission income	**4,299**	5,373
Special commission expense	**62,307**	70,640
Fees and commission income and expense, net	**341**	838
Directors' remuneration	**378**	392

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Risk Committee, Nomination and Compensation and Governance Committee and Audit Committee); their remunerations, allowances and expenses are disclosed above. For Bank's senior executives compensation, refer to note 38.

38. GROUP'S STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

	Six month period ended					
	30 June 2014 (Audited)			30 June 2013 (Unaudited)		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR '000**	**Variable compensation (on cash basis) SR '000**	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000
Senior executives	**14**	**14,103**	**60,790**	14	16,564	60,751
Employees engaged in risk taking activities	**332**	**65,033**	**43,623**	255	47,403	31,720
Employees engaged in control functions	**347**	**61,354**	**28,907**	321	53,893	24,962
Other employees	**6,636**	**589,874**	**197,449**	6,176	535,853	234,043
Subsidiaries	**4,676**	**284,611**	**107,164**	4,197	281,913	83,469
Group total	**12,005**	**1,014,975**	**437,933**	10,963	935,626	434,945

All forms of payment for fixed and variable compensation are in cash.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for the six month period ended 30 June 2014 is SR 266 million (30 June 2013: SR 275 million) which is expected be paid to employees during quarter 1 of 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

39. CAPITAL ADEQUACY

(39.1) Capital adequacy ratio

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 the Bank to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risk which comprise the Pillar 1 minimum capital requirements.

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

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

	Eligible capital		**Capital Adequacy Ratio (Pillar 1)**	
	30 June 2014 (Unaudited) SR '000	31 December 2013 (Unaudited) SR '000	**30 June 2014 (Unaudited) %**	31 December 2013 (Unaudited) %
Core capital (Tier 1)	**45,344,206**	41,630,086	**15.5%**	16.2%
Supplementary capital (Tier 2)	**7,667,675**	2,375,797	**-**	-
Core and supplementary capital (Tier 1 and Tier 2)	**53,011,881**	44,005,883	**18.1%**	17.1%

Tier 1 capital of the Group at the period/year end comprises share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and a prescribed amount 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). Risk Management Group 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. The following table summarizes the Bank's Risk Weighted Assets.

	Risk weighted assets	
	30 June 2014 (Unaudited) SR '000	31 December 2013 (Unaudited) SR '000
Credit risk	**259,985,267**	226,641,233
Operational risk	**25,631,642**	24,479,624
Market risk	**7,006,605**	5,707,726
Total Pillar-1 - risk weighted assets	**292,623,514**	256,828,583

(39.2) BASEL III PILLAR 3 DISCLOSURES

Under Basel III pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website **www.alahli.com** as required by the Saudi Arabian Monetary Agency (SAMA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

40. MATERIAL PARTLY-OWNED SUBSIDIARIES

a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFK operate. The supervisory frameworks require TFK to keep certain levels of regulatory capital and liquid assets, to limit its exposure to other parts of the Group and comply with other ratios. As at 30 June 2014, the carrying amounts of TFK's assets and liabilities are SR 51,617 million and SR 46,601 million respectively (31 December 2013: SR 43,386 million and SR 38,827 million respectively).

b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFK) that has material non-controlling interests (NCI).

	30 June 2014 (Audited) SR '000	31 December 2013 (Audited) SR '000
Summarised statement of financial position		
Loans and advances	**35,538,399**	31,899,489
Other assets	**16,078,879**	11,487,247
Liabilities	**46,601,338**	38,827,175
Net assets	**5,015,940**	4,559,561
Carrying amount of NCI	**1,691,711**	1,537,789

	Six month period ended	
	30 June 2014 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Summarised statement of income		
Total operating income	**1,021,606**	1,111,983
Net income	**191,430**	221,939
Total comprehensive income	**456,371**	(134,259)
Total comprehensive income (loss) allocated to NCI	**153,919**	(45,281)
Summarised cash flow statement		
Net cash from operating activities	**959,626**	443,884
Net cash (used in) investing activities	**(1,185,866)**	(778,870)
Net cash from financing activities	**2,985,961**	243,025
Net increase (decrease) in cash and cash equivalents	**2,759,722**	(91,961)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2014

41. INVESTMENT SERVICES

The Bank offers investment management services to its customers through NCB Capital. Assets under management outstanding at 30 June 2014 amounted to SR 56,737 million (31 December 2013: SR 49,112 million) (note 3.24).

42. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

During the period ended 30 June 2014, as a result of the bonus issue (see note 18), the number of treasury shares increased from 4,024,852 to 5,366,469 (SR 177 million to SR 190.5 million).

43. COMPARATIVE FIGURES

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

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2017	IFRS 15 - Revenue from Contracts with Customers	IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment.
1 January 2018 (tentative)	IFRS 9 – Financial Instruments	The first phase of IFRS 9, which addressed classification and measurement of financial assets was published in November 2009, and was subsequently amended in October 2010 and November 2013, to include classification and measurement requirements of financial liabilities and hedge accounting requirements. IFRS 9 (2013) does not yet have a mandatory effective date, but early adoption is allowed. A mandatory effective date will be set when the IASB completes the impairment phase of the project. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018.

Other improvements/amendments, which are effective for annual periods beginning on or after 1 July 2014 are listed below:

a) IAS 19 – Employee Benefits (amendments).
b) Improvements to IFRS - 2010 to 2012 cycle (issued in December 2013).
c) Improvements to IFRS - 2011 to 2013 cycle (issued in December 2013).

45. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 23 July 2014 (corresponding to 26 Ramadan 1435H).

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

31 DECEMBER 2013 AND AUDITORS' REPORT

Ernst & Young **KPMG Al Fozan & Al Sadhan**

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013 AND 2012

	Notes	2013 SR '000	2012 SR '000
ASSETS			
Cash and balances with SAMA	4	**39,089,688**	40,298,428
Due from banks and other financial institutions	5	**14,831,332**	16,402,282
Investments, net	6	**125,294,012**	116,427,793
Loans and advances, net	7	**187,687,037**	163,461,189
Investment in associates, net	8	**828,915**	832,631
Other real estate, net	9	**216,001**	218,144
Property and equipment, net	10	**2,761,528**	2,549,896
Goodwill and other intangible assets, net	11	**873,636**	1,172,098
Other assets	12	**5,698,185**	3,897,242
Total assets		**377,280,334**	345,259,703
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**24,725,314**	25,574,176
Customers' deposits	15	**300,601,675**	273,530,090
Debt securities issued	16	**1,511,250**	-
Other liabilities	17	**7,905,915**	6,751,292
Total liabilities		**334,744,154**	305,855,558
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	18	**15,000,000**	15,000,000
Treasury shares	42	**(177,093)**	(177,093)
Statutory reserve	19	**15,102,989**	13,623,678
Other reserves (cumulative changes in fair values)	20	**1,353,948**	1,857,342
Retained earnings		**9,699,260**	7,051,299
Proposed dividend	28	**1,645,573**	1,495,975
Foreign currency translation reserve		**(1,690,770)**	(1,147,570)
Total equity attributable to equity holders of the Bank		**40,933,907**	37,703,631
NON-CONTROLLING INTERESTS	40	**1,602,273**	1,700,514
Total equity		**42,536,180**	39,404,145
Total liabilities and equity		**377,280,334**	345,259,703

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

	Notes	2013 SR '000	2012 SR '000
Special commission income	22	**11,725,818**	11,096,187
Special commission expense	22	**(1,713,488)**	(2,136,605)
Net special commission income		**10,012,330**	8,959,582
Fee income from banking services, net	23	**3,018,652**	2,960,382
Exchange income, net		**687,229**	547,111
Income from FVIS investments, net		**118,655**	115,571
Trading income, net	24	**100,553**	80,876
Dividend income		**89,838**	98,733
Gains on non-trading investments, net	25	**646,092**	601,756
Other operating income, net		**189,594**	144,900
Total operating income		**14,862,943**	13,508,911
Salaries and employee-related expenses		**3,005,460**	2,594,985
Rent and premises-related expenses		**574,079**	500,532
Depreciation of property and equipment	10	**477,890**	414,212
Amortisation of intangible assets	11	**189,337**	189,337
Other general and administrative expenses		**1,554,824**	1,526,345
Impairment charge for credit losses, net	7.3	**795,345**	1,436,012
Impairment charge on investments, net	6.7	**40,406**	-
Total operating expenses		**6,637,341**	6,661,423
Income from operations, net		**8,225,602**	6,847,488
Other (expenses)			
Social responsibility projects		**(52,666)**	(57,929)
Other non-operating (expenses), net	26	**(183,960)**	(176,233)
Net other (expenses)		**(236,626)**	(234,162)
Net income for the year		**7,988,976**	6,613,326
Net income for the year attributable to:			
Equity holders of the Bank		**7,852,199**	6,452,804
Non-controlling interests		**136,777**	160,522
Net income for the year		**7,988,976**	6,613,326
Basic and diluted earnings per share (expressed in SR per share)	27	**5.25**	4.31

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

	Notes	2013 SR '000	2012 SR '000
Net income for the year		**7,988,976**	6,613,326
Other comprehensive (loss) income items that are or may be reclassified to consolidated statement of income:			
Foreign currency translation reserve - (losses)/gains		**(779,810)**	368,242
Available for sale financial assets:			
- Net change in fair values		**5,433**	360,940
- Transfers to consolidated statement of income		**(523,266)**	(451,681)
- Impairment charge on available for sale investments	6.7	**40,406**	-
Cash flow hedges:			
- Effective portion of change in fair values	13	**(20,403)**	80,363
- Transfers to consolidated statement of income		**(40,161)**	(45,889)
Total comprehensive income for the year		**6,671,175**	6,925,301
Attributable to:			
Equity holders of the Bank		**6,805,605**	6,648,457
Non-controlling interests		**(134,430)**	276,844
Total comprehensive income for the year		**6,671,175**	6,925,301

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

		Attributable to equity holders of the Bank										
					Other reserves							
	Notes	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets SR' 000	Cash flow hedge SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total equity SR' 000
2013												
Balance as at 1 January 2013		**15,000,000**	**(177,093)**	**13,623,678**	**1,765,983**	**91,359**	**7,051,299**	**1,495,975**	**(1,147,570)**	**37,703,631**	**1,700,514**	**39,404,145**
Total comprehensive (loss)/income for the year		-	-	-	**(442,830)**	**(60,564)**	**7,852,199**	-	**(543,200)**	**6,805,605**	**(134,430)**	**6,671,175**
Transfer to statutory reserve	19	-	-	**1,479,311**	-	-	**(1,479,311)**	-	-	-	-	-
Adjustments in non-controlling interest and subsidiaries		-	-	-	-	-	**7,302**	-	-	**7,302**	**(29,350)**	**(22,048)**
Capital injection	1.2(b)	-	-	-	-	-	-	-	-	-	**65,539**	**65,539**
Proposed final dividend for 2013	28	-	-	-	-	-	**(1,645,573)**	**1,645,573**	-	-	-	-
Zakat - NCB and NCBC (included in other liabilities)	17	-	-	-	-	-	**(889,876)**	-	-	**(889,876)**	-	**(889,876)**
Dividend paid for 2013 (interim) and 2012 (final)	28	-	-	-	-	-	**(1,196,780)**	**(1,495,975)**	-	**(2,692,755)**	-	**(2,692,755)**
Balance as at 31 December 2013		**15,000,000**	**(177,093)**	**15,102,989**	**1,323,153**	**30,795**	**9,699,260**	**1,645,573**	**(1,690,770)**	**40,933,907**	**1,602,273**	**42,536,180**
		-	-	-	-		-	-	-		-	
2012												
Balance as at 1 January 2012		15,000,000	(177,093)	12,105,333	1,861,389	56,885	5,226,884	1,495,975	(1,404,155)	34,165,218	1,420,036	35,585,254
Total comprehensive (loss)/income for the year		-	-	-	(95,406)	34,474	6,452,804	-	256,585	6,648,457	276,844	6,925,301
Transfer to statutory reserve	19	-	-	1,518,345	-	-	(1,518,345)	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	61,464	-	-	61,464	(74,779)	(13,315)
Capital injection	1.2(b)	-	-	-	-	-	-	-	-	-	78,413	78,413
Proposed final dividend for 2012	28	-	-	-	-	-	(1,495,975)	1,495,975	-	-	-	-
Zakat - NCB and NCBC (included in other liabilities)	17	-	-	-	-	-	(478,753)	-	-	(478,753)	-	(478,753)
Dividend paid for 2012 (interim) and 2011 (final)	28	-	-	-	-	-	(1,196,780)	(1,495,975)	-	(2,692,755)	-	(2,692,755)
Balance as at 31 December 2012		15,000,000	(177,093)	13,623,678	1,765,983	91,359	7,051,299	1,495,975	(1,147,570)	37,703,631	1,700,514	39,404,145

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

	Notes	2013 SR' 000	2012 SR' 000
OPERATING ACTIVITIES			
Net income for the year		**7,988,976**	6,613,326
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		**209,356**	38,765
(Gains) on non-trading investments, net		**(646,092)**	(601,756)
(Gains) on disposal of property and equipment, net	26	**(15,250)**	(3,563)
(Gains) on disposal of other real estate, net		**(4,000)**	(34,824)
Loss (gains) on disposal of other repossessed assets		**1,870**	(9,195)
Depreciation of property and equipment	10	**477,890**	414,212
Amortisation of intangible assets	11	**189,337**	189,337
Impairment charge for credit losses, net	7.3	**795,345**	1,470,108
Bank's share in associates' losses	26	**3,716**	5,944
Impairment charge on investments, net	6.7	**40,406**	-
		9,041,554	8,082,354
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		**(2,253,959)**	(753,769)
Due from banks and other financial institutions maturing after 90 days		**(2,459,994)**	(2,310,750)
Held as fair value through income statement (FVIS) investments		**(47,002)**	920,065
Loans and advances		**(29,680,865)**	(28,609,039)
Other real estate		**72,763**	93,144
Other assets		**(1,554,466)**	1,048,423
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**92,651**	5,450,948
Customers' deposits		**30,833,363**	32,884,176
Other liabilities		**456,016**	(101,467)
Net cash from operating activities		**4,500,061**	16,704,085
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		**66,561,047**	76,232,496
Purchase of non-trading / non-FVIS investments		**(75,719,862)**	(72,544,969)
Purchase of property and equipment	10	**(751,004)**	(655,952)
Proceeds from disposal of property and equipment		**37,932**	25,336
Net cash (used in) from investing activities		**(9,871,887)**	3,056,911
FINANCING ACTIVITIES			
Debt securities issued	16	**1,511,250**	-
Net movement in non-controlling interests		**57,216**	97,035
Dividends paid (final)		**(1,495,975)**	(1,495,975)
Dividend paid interim		**(1,196,780)**	(1,196,780)
Net cash (used in) financing activities		**(1,124,289)**	(2,595,720)
Net (decrease) increase in cash and cash equivalents		**(6,496,115)**	17,165,276
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the year		**(997,528)**	207,401
Cash and cash equivalents at the beginning of the year		**38,088,205**	20,715,528
Cash and cash equivalents at the end of the year	29	**30,594,562**	38,088,205
Special commission received during the year		**11,861,290**	10,870,633
Special commission paid during the year		**1,709,860**	2,130,491
Supplemental non-cash information			
Movement in other reserve and transfers to consolidated statement of income		**(537,991)**	(56,267)

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

1. GENERAL

(1.1) Introduction

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

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and 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 operates through its 312 branches (2012: 295 branches), 17 retail service centres (2012: 16 centres), 10 corporate service centres (2012: 10 centres) and 57 QuickPay remittance centers (2012: 28 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). 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.

(1.2) Group's subsidiaries

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

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activitives. The Bank has 90.71% (2012: 90.71%) direct ownership interest in NCBC and an indirect ownership of 2.79% (2012: 1.96%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

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

The Bank has 66.27% (2012: 65.61%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. During the year ended 31 December 2012, the shareholders of TFK, resolved to increase the capital by TL 975 million, which was subsequently endorsed by the Central Bank of Turkey (BRSA). Accordingly, the share capital of Turkish Bank has been increased to TL 1,775 million through capitalization of retained earnings and cash contribution. The Bank's share of such cash contribution was TL 206 million (SR 431 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 65.46% (2012: 71.36%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate. On 5 September 2013, NCBC disposed of 7% of its ownership interest in Eastgate Capital Holdings Inc. for a consideration of SR 656 thousands, without losing control.

(d) NCBC Investment Management Umbrella Company Plc

The Group has 93.5% (2012: 92.67%) effective ownership in NCBC Investment Management Umbrella Company Plc, which was formed by NCBC in Ireland. NCBC Investment Management Umbrella Company Plc is the Undertaking Company for Collective Investment in Transferable Securities (UCITS) under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011.

(e) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has 100% ownership (2012: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are prepared in compliance with Banking Control Law, the provision of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) Basis of measurement

The 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), available for sale investments and other real estate. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Functional and presentation currency

These 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

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries, Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Group reviews its loan portfolios to assess an additional portfolio (collective) provision on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments that are not quoted in an active market

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 to sell the asset or transfer the liability takes place either:

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see note 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(b) Fair value of financial instruments that are not quoted in an active market (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

(c) Impairment of available for sale equity investments

The Group exercises judgment to consider impairment on the available for sale (equity) investments. This includes determination of a significant or prolonged decline in the fair value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(f) Impairment of non-financial assets (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Determination of control over investment funds

The group acts as Fund Manager to a number of investment funds. Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(3.1) **Changes in accounting policies**

The accounting policies adopted are consistent with those used in Group's annual financial statements for the year ended December 31, 2012 except for amendments and revisions to existing standards mentioned below. The changes do not have any material impact on the financial statements of the Group other than few additional disclosures.

a) New standards

- IFRS 10 Consolidated financial statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

- IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

b) Amendments to existing standards

- Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

- IAS 27 Separate Financial Statements (2011): now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:

- IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) **Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.3) **Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.3.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3.2) 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.

(3.3.3) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be "highly effective", i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) **Derivative financial instruments and hedge accounting (continued)**

(3.3.5) Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated statement of income.

(3.4) **Foreign currencies**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC and Redco is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate and NCBC Investment Management Umbrella Company Plc is U.S. Dollars.

(a) Transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are retranslated into functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the statement of income in ‘Other operating expenses’ or ‘Other operating income’ at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) **Offsetting financial instruments**

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.6) **Revenue / expenses recognition**

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

Dividend income is recognized when the right to receive dividend income is established.

Fees income and expenses are recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) **Trading income (loss), net**

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.8) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) **Sale and repurchase agreements (continued)**

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA, due from banks and other financial institutions or loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.9) **Business combinations**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group’s accounting policy.

(a) Subsidiaries

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

i) the Group has power over the 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 Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

(b) Non-controlling interests

Non-controlling interest 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 consolidated statement of income and within equity in the consolidated statement of financial position, separately from Bank 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) **Business combinations (continued)**

(c) Associates

Associates are enterprises over which the Group 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 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 recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

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

(3.10) **Goodwill and other intangible assets**

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(b) Other intangible assets

Intangible assets in the statement of financial position comprise of customer deposits relationships, the value of the TFK's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 3-4 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

(b) Held at fair value through income statement (FVIS)

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments (continued)**

(c) Available for sale (AFS)

Available-for-sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

(3.12) **Loans and advances**

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and advances are initially measured at fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

For presentation purposes, provision for credit losses is deducted from loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.13) **Due from banks and other financial institutions**

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.14) **Impairment of financial assets**

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses of corporate loans, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since they were originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, which treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective yield rate.

Corporate loans are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the loan has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

Consumer loans are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer loans are based on a collective “pool” basis, rather than on individual loans, the provisions for consumer loans are also computed on a “pool basis” using the ‘flow rate” methodology. The provision coverage is 100% for such non-performing loans which reach the “write-off point” (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) **Impairment of financial assets (continued)**

(b) Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as a reversal of provision for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) **Other real estate and repossessed assets**

The Group, in the ordinary course of business, acquires certain real estate and other assets against settlement of due loans and advances. These are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of such related assets, less any costs to sell (if material). No depreciation is charged on such assets.

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain on disposal of repossessed assets are included in other operating income, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.16) **Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	3-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

All such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(3.17) **Financial liabilities**

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.18) **Financial guarantees and loan commitments**

In the ordinary course of business, the Group issues financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions.

(3.19) **Provisions**

Provisions (other than impairment of credit losses and investments) are recognized when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.20) **Accounting for leases**

(a) Where the Group is the lessee

All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognized as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) **Zakat and overseas income tax**

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on the shareholder's behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they are incorporated and such taxes are reported under non-operating expenses.

(3.22) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) **Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.24) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and its subsidiaries and, accordingly, are not included in the consolidated financial statements of the Group.

(3.25) **Financing products in compliance with *Shariah* rules**

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with customer specifications. The Bank signs Istisna'a contracts with customers to provide specified assets at agreed-upon prices (equal to the Bank's cost plus a specified profit margin) and payment terms. The Bank then signs parallel Istisna'a agreements with manufacturers for the delivery of these assets in return for settlement of the costs by the Bank.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these financial statements. They are included in loans and advances.

(3.26) **Shariah-compliant deposit products**

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

Alkhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

This Shariah-compliant deposit product is accounted for in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) **Treasury shares**

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

(3.28) **End of Service Benefits**

The provision for end of service benefits is based on the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

(3.29) **Staff Compensation**

The Bank’s Board of Directors and its Nomination and Compensation Committee oversee the design and implementation of the Bank's Compensation process in accordance with SAMA’s Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Compensation and Nomination Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities have been reviewed and updated in line with SAMA’s Compensation Rules.

The Committee is responsible for the development and implementation of the compensation process and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.29.1) Fixed Compensation

The fixed compensation comprises salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation grade structure and pay scales. The competitiveness of the pay scales is maintained through participation in periodic and regular market pay surveys.

(3.29.2) Variable Compensation

Variable compensation aims at driving performance and limit excessive risk-taking. The Bank operates two plans under variable compensation:

(a) Annual Performance Bonus

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Bank business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employee development, teamwork, staff morale.

The Bank has established a regular performance appraisal process aimed at assessing employees’ performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Bank’s overall results. The overall annual performance bonus pool is set as a percentage of the Bank’s net income, adjusted to reflect the core performance of the employees. The Bank does not have a guaranteed bonus plan.

The cost of this plan is recognized in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.29) **Staff Compensation (continued)**

(3.29.2) Variable Compensation (continued)

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long-term corporate success, measured on the basis of return on equity (ROE) attributable to the equity holders of the Bank. The plan is rolled out in three-year cycles. The Bank's actual performance is assessed at the end of each cycle as a basis for determining the actual payout amount.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection is made through rigorous vetting to ensure that other critical participation criteria are met.

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The three year cost estimate is apportioned and charged equally to the statement of income of each year in the cycle. As the estimate is revised annually, the difference between the latest and the previous estimate is apportioned and charged equally over the remainder of the cycle.

4. CASH AND BALANCES WITH SAMA

	2013	2012
	SR '000	SR '000
Cash in hand	**5,104,443**	3,730,621
Balances with SAMA:		
Statutory deposit	**16,804,464**	14,550,505
Money market placements and Current accounts	**17,180,781**	22,017,302
Total	**39,089,688**	40,298,428

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 33). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 SR '000	2012 SR '000
Current accounts	**4,469,447**	3,737,548
Money market placements	**10,361,885**	12,664,734
Due from banks and other financial institutions	**14,831,332**	16,402,282

The credit quality of due from banks and other financial institutions is managed using credit ratings, as determined by reputable external credit rating agencies (see note 31).

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2013 SR '000	2012 SR '000	2013 SR '000	2012 SR '000	2013 SR '000	2012 SR '000
Mutual funds	**575,425**	541,561	**97,652**	74,288	**673,077**	615,849
Held for trading	**575,425**	541,561	**97,652**	74,288	**673,077**	615,849

(b) Held as FVIS

	Domestic		International		Total	
	2013 SR '000	2012 SR '000	2013 SR '000	2012 SR '000	2013 SR '000	2012 SR '000
Hedge funds	**-**	-	**2,072,015**	2,082,240	**2,072,015**	2,082,240
Held as FVIS	**-**	-	**2,072,015**	2,082,240	**2,072,015**	2,082,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

6. INVESTMENTS, NET (continued)

(c) Available for sale

	Domestic		International		Total	
	2013 SR '000	2012 SR '000	**2013 SR '000**	2012 SR '000	**2013 SR '000**	2012 SR '000
Fixed rate securities	-	66,944	**19,697,704**	20,379,175	**19,697,704**	20,446,119
Floating rate securities	-	-	**4,535,279**	3,499,658	**4,535,279**	3,499,658
Equity instruments	**2,729,063**	2,143,039	**1,774,974**	1,792,466	**4,504,037**	3,935,505
Others	-	-	**473**	255,000	**473**	255,000
Available for sale, gross	**2,729,063**	2,209,983	**26,008,430**	25,926,299	**28,737,493**	28,136,282
Provision for impairment	**(220,516)**	(50,197)	**(855,149)**	(1,029,439)	**(1,075,665)**	(1,079,636)
Available for sale, net	**2,508,547**	2,159,786	**25,153,281**	24,896,860	**27,661,828**	27,056,646

(d) Held to maturity

	Domestic		International		Total	
	2013 SR '000	2012 SR '000	**2013 SR '000**	2012 SR '000	**2013 SR '000**	2012 SR '000
Fixed rate securities	-	-	**1,030,246**	1,403,653	**1,030,246**	1,403,653
Floating rate securities	-	-	-	5,545	-	5,545
Held to maturity, gross	-	-	**1,030,246**	1,409,198	**1,030,246**	1,409,198
Provision for impairment	-	-	-	(1,494)	-	(1,494)
Held to maturity, net	-	-	**1,030,246**	1,407,704	**1,030,246**	1,407,704

(e) Other investments held at amortised cost

	Domestic		International		Total	
	2013 SR '000	2012 SR '000	**2013 SR '000**	2012 SR '000	**2013 SR '000**	2012 SR '000
Fixed rate securities	**39,157,303**	42,336,021	**40,181,524**	33,154,809	**79,338,827**	75,490,830
Floating rate securities	**5,946,011**	4,795,018	**8,572,008**	4,984,763	**14,518,019**	9,779,781
Other investments held at amortised cost, gross	**45,103,314**	47,131,039	**48,753,532**	38,139,572	**93,856,846**	85,270,611
Provision for impairment	-	-	-	(5,257)	-	(5,257)
Other investments held at amortised cost, net	**45,103,314**	47,131,039	**48,753,532**	38,134,315	**93,856,846**	85,265,354
Investments, net	**48,187,286**	49,832,386	**77,106,726**	66,595,407	**125,294,012**	116,427,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

6. INVESTMENTS, NET (continued)

(6.2) The analysis of the composition of investments is as follows:

	2013 SR '000			2012 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**19,974,284**	**80,093,459**	**100,067,743**	21,827,273	75,513,329	97,340,602
Floating rate securities	**4,442,247**	**14,610,085**	**19,052,332**	3,499,657	9,785,327	13,284,984
Hedge funds and externally managed portfolio	**-**	**2,072,015**	**2,072,015**	-	2,082,240	2,082,240
Equity instruments	**2,682,161**	**1,821,876**	**4,504,037**	2,096,136	1,839,369	3,935,505
Others	**673,077**	**473**	**673,550**	615,849	255,000	870,849
Investments, gross	**27,771,769**	**98,597,908**	**126,369,677**	28,038,915	89,475,265	117,514,180
Provision for impairment	**(319,792)**	**(755,873)**	**(1,075,665)**	(355,432)	(730,955)	(1,086,387)
Investments, net	**27,451,977**	**97,842,035**	**125,294,012**	27,683,483	88,744,310	116,427,793

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds. Others include Mutual Funds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities that although are quoted but for which there is no active market. The carrying value of such securities amounts to SR 49,741 million (2012: SR 39,603 million).

Unquoted equity instruments include unquoted investments amounting to SR 68 million (2012: SR 68.7 million), net of provision for impairment, that are carried at cost as their fair values cannot be reliably measured.

(6.3) Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the event of default by the Bank (see note 14).

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2013 SR '000		2012 SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**5,474,918**	**5,474,918**	4,637,558	4,637,558
Held to maturity	**467,765**	**526,514**	1,030,394	1,101,893
Investments held at amortised cost	**1,089,417**	**1,120,139**	1,694,833	1,756,595
Total	**7,032,100**	**7,121,571**	7,362,785	7,496,046

The Bank has placed a margin deposit of SR 263 million (2012: SR 17 million) as an additional security for these repo transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

6. INVESTMENTS, NET (continued)

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortised cost are as follows:

(a) Held to maturity

	2013 SR '000				2012 SR '000			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**1,030,246**	**76,430**	**-**	**1,106,676**	1,403,653	119,086	-	1,522,739
Floating rate securities	**-**	**-**	**-**	**-**	5,545	-	(9)	5,536
Held to maturity, gross	**1,030,246**	**76,430**	**-**	**1,106,676**	1,409,198	119,086	(9)	1,528,275
Provision for impairment	**-**	**-**	**-**	**-**	(1,494)	-	-	(1,494)
Total	**1,030,246**	**76,430**	**-**	**1,106,676**	1,407,704	119,086	(9)	1,526,781

(b) Other investments held at amortised cost

	2013 SR '000				2012 SR '000			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**79,338,827**	**1,397,308**	**(1,137,476)**	**79,598,659**	75,490,830	2,600,825	(117,076)	77,974,579
Floating rate securities	**14,518,019**	**267,950**	**(111,284)**	**14,674,685**	9,779,781	191,843	(3,568)	9,968,056
Other investments held at amortised cost, gross	**93,856,846**	**1,665,258**	**(1,248,760)**	**94,273,344**	85,270,611	2,792,668	(120,644)	87,942,635
Provision for impairment	**-**	**-**	**-**	**-**	(5,257)	-	-	(5,257)
Total	**93,856,846**	**1,665,258**	**(1,248,760)**	**94,273,344**	85,265,354	2,792,668	(120,644)	87,937,378

(6.5) Counterparty analysis of the Group's investments, net of provisions

	2013 SR '000	2012 SR '000
Government and Quasi Government	**108,020,874**	102,530,270
Corporate	**9,911,435**	7,757,002
Banks and other financial institutions	**7,361,703**	6,140,521
Total	**125,294,012**	116,427,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

6. INVESTMENTS, NET (continued)

(6.6) Credit quality of investments

The credit quality of investments (excluding investment in equity instruments, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	2013	2012
	SR '000	SR '000
Performing:		
Saudi Government Bonds and Treasury Bills	**27,994,537**	35,649,563
Investment grade	**89,854,617**	73,436,635
Non-investment grade	**1,165,150**	1,441,637
Unrated	**83,171**	298,817
Total performing	**119,097,475**	110,826,652
Less: portfolio (collective) provision	**(84,566)**	(347,169)
Net performing	**119,012,909**	110,479,483

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

(6.7) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	2013	2012
	SR '000	SR '000
Balance at beginning of the year	**1,086,387**	1,143,194
Net charge for the year	**40,406**	-
(Written-off) against investments sold	**(51,128)**	(56,807)
Balance at the end of the year	**1,075,665**	1,086,387

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2013					
Performing loans and advances	**2,421,326**	**60,344,450**	**122,202,506**	**4,641,490**	**189,609,772**
Non-performing loans and advances	**62,053**	**373,211**	**2,424,432**	**59,751**	**2,919,447**
Total loans and advances	**2,483,379**	**60,717,661**	**124,626,938**	**4,701,241**	**192,529,219**
Provision for credit losses	**(67,922)**	**(803,085)**	**(3,898,589)**	**(72,586)**	**(4,842,182)**
Loans and advances, net	**2,415,457**	**59,914,576**	**120,728,349**	**4,628,655**	**187,687,037**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2012					
Performing loans and advances	2,024,305	49,539,012	108,717,451	5,302,844	165,583,612
Non-performing loans and advances	62,756	235,431	4,479,239	155,280	4,932,706
Total loans and advances	2,087,061	49,774,443	113,196,690	5,458,124	170,516,318
Provision for credit losses	(111,728)	(808,975)	(5,966,892)	(167,534)	(7,055,129)
Loans and advances, net	1,975,333	48,965,468	107,229,798	5,290,590	163,461,189

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with *Shariah* rules mainly Murabaha, Tayseer and Ijara amounting to SR 124,151 million (2012: SR 104,229 million).

Provision for credit losses related to financing products in compliance with *Shariah* rules is SR 3,446 million (2012: SR 2,652 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

7. LOANS AND ADVANCES, NET (continued)

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2013					
Balance at beginning of the year	**111,728**	**808,975**	**5,966,892**	**167,534**	**7,055,129**
Foreign currency translation adjustment	**(2,217)**	**(9,526)**	**(114,106)**	**-**	**(125,849)**
Provided during the year	**77,050**	**655,031**	**619,253**	**-**	**1,351,334**
Bad debts (written off)	**(116,463)**	**(646,390)**	**(2,390,651)**	**(94,948)**	**(3,248,452)**
(Recoveries) of amounts previously provided	**(2,176)**	**(5,005)**	**(182,799)**	**-**	**(189,980)**
Balance at the end of the year	**67,922**	**803,085**	**3,898,589**	**72,586**	**4,842,182**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2012					
Balance at beginning of the year	116,385	745,305	4,927,424	227,517	6,016,631
Foreign currency translation adjustment	616	1,892	25,651	-	28,159
Provided (reversed) during the year	95,191	492,281	1,222,706	(24,387)	1,785,791
Bad debts (written off)	(96,011)	(426,336)	(70,228)	(35,596)	(628,171)
(Recoveries) of amounts previously provided	(4,453)	(4,167)	(138,661)	-	(147,281)
Balance at the end of the year	111,728	808,975	5,966,892	167,534	7,055,129

(7.3) Impairment charge for credit losses in the consolidated statement of income represents:

	2013	2012
	SR '000	SR '000
Addition during the year	**1,351,334**	1,785,791
(Recoveries) of amounts previously provided	**(189,980)**	(147,281)
	1,161,354	1,638,510
Provision against indirect facilities (included in other liabilities) (note 17)	**32,662**	162,519
(Recoveries) of debts previously written-off	**(403,209)**	(371,159)
Direct write-off	**4,538**	6,142
Net charge for the year (impairment charge for credit losses, net)	**795,345**	1,436,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances

The Group uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

The credit quality of loans and advances is managed using internal credit ratings. The table below shows the credit quality by class of asset.

	SR '000			
	Consumer and Credit cards	Corporate	Others	Total
2013				
Performing:				
Neither past due nor impaired (performing)				
Level 1	-	87,595,214	2,696,322	90,291,536
Level 2	-	24,297,814	-	24,297,814
Level 3	-	4,036,836	-	4,036,836
Level 4	-	2,730,051	-	2,730,051
Standard - unrated	59,718,113	1,708,870	1,944,323	63,371,306
Total	59,718,113	120,368,785	4,640,645	184,727,543
Past due but not impaired (performing)				
Less than 30 days	2,387,702	1,043,142	845	3,431,689
30-59 days	450,191	467,170	-	917,361
60-90 days	209,770	323,409	-	533,179
Sub total	3,047,663	1,833,721	845	4,882,229
Total performing	62,765,776	122,202,506	4,641,490	189,609,772
Less: portfolio (collective) provision	(541,928)	(1,836,081)	(30,246)	(2,408,255)
Net performing	62,223,848	120,366,425	4,611,244	187,201,517
Non-performing:				
Total non-performing	435,264	2,424,432	59,751	2,919,447
Less: specific provision	(329,079)	(2,062,508)	(42,340)	(2,433,927)
Net non-performing	106,185	361,924	17,411	485,520
Total loans and advances, net	62,330,033	120,728,349	4,628,655	187,687,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances (continued)

	SR '000			
	Consumer and Credit cards	Corporate	Others	Total
2012				
Performing:				
Neither past due nor impaired (performing)				
Level 1	-	77,240,888	3,909,573	81,150,461
Level 2	-	19,390,065	-	19,390,065
Level 3	-	4,545,335	-	4,545,335
Level 4	-	3,927,614	-	3,927,614
Standard - unrated	49,644,644	1,744,810	1,333,779	52,723,233
Total	49,644,644	106,848,712	5,243,352	161,736,708
Past due but not impaired (performing)				
Less than 30 days	1,473,724	1,048,920	711	2,523,355
30-59 days	279,338	532,127	58,781	870,246
60-90 days	165,611	287,692	-	453,303
Sub total	1,918,673	1,868,739	59,492	3,846,904
Total performing	51,563,317	108,717,451	5,302,844	165,583,612
Less: portfolio (collective) provision	(674,332)	(1,790,391)	(30,246)	(2,494,969)
Net performing	50,888,985	106,927,060	5,272,598	163,088,643
Non-performing:				
Total non-performing	298,187	4,479,239	155,280	4,932,706
Less: specific provision	(246,371)	(4,176,501)	(137,288)	(4,560,160)
Net non-performing	51,816	302,738	17,992	372,546
Total loans and advances, net	50,940,801	107,229,798	5,290,590	163,461,189

Standard - unrated loans mainly comprise of consumer, credit cards, small businesses and private banking loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances (continued)

Collateral

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by Group against loans and advances by each category are as follows:

	2013 **SR '000**	2012 SR '000
Neither past due nor impaired	**53,413,123**	46,992,590
Past due but not impaired	**2,495,826**	1,839,121
Impaired	**590,744**	635,620
Total	**56,499,693**	49,467,331

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with intent to dispose off in case of default by the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. LOANS AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

2013	**Performing SR' 000**	**Non-performing SR' 000**	**Specific provision SR' 000**	**Loans and advances, net SR' 000**
Government and quasi Government	**2,649,831**	-	-	**2,649,831**
Banks and other financial institutions	**2,874,054**	**4,127**	**(3,880)**	**2,874,301**
Agriculture and fishing	**677,142**	**20,618**	**(11,903)**	**685,857**
Manufacturing	**29,656,768**	**480,102**	**(348,228)**	**29,788,642**
Electricity, water, gas and health services	**10,124,612**	**9,021**	**(4,362)**	**10,129,271**
Building and construction	**13,340,121**	**585,742**	**(540,007)**	**13,385,856**
Commerce	**34,646,562**	**1,221,753**	**(1,076,443)**	**34,791,872**
Transportation and communication	**12,805,082**	**25,583**	**(23,715)**	**12,806,950**
Services	**16,736,394**	**47,857**	**(40,168)**	**16,744,083**
Consumer loans and credit cards	**62,765,776**	**435,264**	**(329,079)**	**62,871,961**
Others	**3,333,430**	**89,380**	**(56,142)**	**3,366,668**
	189,609,772	**2,919,447**	**(2,433,927)**	**190,095,292**
Portfolio (collective) provision				**(2,408,255)**
Loans and advances, net				**187,687,037**

2012	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Loans and advances, net SR' 000
Government and quasi Government	1,802,969	-	-	1,802,969
Banks and other financial institutions	3,806,419	42,649	(42,464)	3,806,604
Agriculture and fishing	635,787	23,275	(12,043)	647,019
Manufacturing	26,296,747	348,424	(296,075)	26,349,096
Electricity, water, gas and health services	9,179,088	34,227	(25,936)	9,187,379
Building and construction	11,690,632	1,531,934	(1,494,631)	11,727,935
Commerce	31,895,726	2,258,505	(2,153,959)	32,000,272
Transportation and communication	9,920,928	106,612	(88,169)	9,939,371
Services	15,902,983	141,153	(86,452)	15,957,684
Consumer loans and credit cards	51,563,317	298,187	(246,371)	51,615,133
Others	2,889,016	147,742	(114,062)	2,922,696
	165,583,612	4,932,708	(4,560,162)	165,956,158
Portfolio (collective) provision				(2,494,969)
Loans and advances, net				163,461,189

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31 DECEMBER 2013

7. LOANS AND ADVANCES, NET (continued)

(7.6) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	2013 SR '000	2012 SR '000
Gross receivables from finance leases:		
Less than 1 year	**976,288**	1,699,223
1 to 5 years	**7,793,157**	4,776,621
Over 5 years	**12,699,540**	6,749,995
	21,468,985	13,225,839
Unearned finance income on finance leases	**(4,478,875)**	(3,213,835)
Net receivables from finance leases	**16,990,110**	10,012,004

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 321 million (2012: SR 365 million).

8. INVESTMENT IN ASSOCIATES, NET

	2013 SR '000	2012 SR '000
Cost:		
At the beginning/end of the year	**1,487,450**	1,487,450
Provision for impairment and share of losses:		
At beginning of the year	**(654,819)**	(648,875)
Additions, net (note 26)	**(3,716)**	(5,944)
At 31 December	**(658,535)**	(654,819)
Investment in associates, net	**828,915**	832,631

Investment in associates represents a 60% (2012: 60%) ownership interest in the Commercial Real Estate Markets Company 30% (2012: 30%) ownership interest in each of Al Behar Real Estate Investment Company and Al-Ahli Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. OTHER REAL ESTATE, NET

	2013 SR '000	2012 SR '000
Cost:		
At beginning of the year	**304,822**	357,121
Additions	**49,552**	24,219
Disposals	**(68,402)**	(76,518)
At 31 December	**285,972**	304,822
Provision and foreign currency translation:		
Foreign currency translation adjustment	**(20,493)**	(9,642)
Provision for unrealized revaluation losses	**(49,478)**	(77,036)
At 31 December	**(69,971)**	(86,678)
Total	**216,001**	218,144

10. PROPERTY AND EQUIPMENT, NET

	2013			2012		
	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	**2,951,701**	**2,402,233**	**5,353,934**	2,818,314	2,044,896	4,863,210
Foreign currency translation adjustment	**(32,174)**	**(58,271)**	**(90,445)**	8,993	18,314	27,307
Additions	**328,259**	**422,745**	**751,004**	136,414	519,538	655,952
Disposals and retirement	**(618)**	**(68,294)**	**(68,912)**	(12,020)	(180,515)	(192,535)
At 31 December	**3,247,168**	**2,698,413**	**5,945,581**	2,951,701	2,402,233	5,353,934
Accumulated depreciation:						
At beginning of the year	**1,316,595**	**1,487,443**	**2,804,038**	1,188,441	1,357,416	2,545,857
Foreign currency translation adjustment	**(12,436)**	**(39,209)**	**(51,645)**	3,045	11,686	14,731
Charge for the year	**139,721**	**338,169**	**477,890**	130,594	283,618	414,212
Disposals and retirement	**(280)**	**(45,950)**	**(46,230)**	(5,485)	(165,277)	(170,762)
At 31 December	**1,443,600**	**1,740,453**	**3,184,053**	1,316,595	1,487,443	2,804,038
Net book value:						
As at 31 December	**1,803,568**	**957,960**	**2,761,528**	1,635,106	914,790	2,549,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	2013		2012	
	Goodwill SR '000	**Other intangibles SR '000**	Goodwill SR '000	Other intangibles SR '000
Cost:				
At beginning of the year	**1,579,854**	**1,238,076**	1,834,120	1,248,994
Disposal	-	-	(346,360)	(83,090)
Foreign currency translation adjustment	**(248,927)**	**(195,075)**	92,094	72,172
At 31 December	**1,330,927**	**1,043,001**	1,579,854	1,238,076
Amortisation, impairment and foreign currency translation:				
At beginning of the year	**937,792**	**708,040**	1,229,485	622,686
Amortisation charge for the year	-	**189,337**	-	189,337
Impairment loss release on disposal	-	-	(346,360)	(52,668)
Disposal	-	-	-	(30,422)
Foreign currency translation adjustment	**(147,762)**	**(187,115)**	54,667	(20,893)
At 31 December	**790,030**	**710,262**	937,792	708,040
Net book value:				
At 31 December	**540,897**	**332,739**	642,062	530,036

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out an impairment test in respect of the goodwill arising on the acquisition of Türkiye Finans Katılım Bankası A.Ş. (TFK). The recoverable amount of TFK has been determined based on the higher of value in use or fair value less cost to sell. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business.

An average discount rate of 14.2% (2012: 13.6%) was used to discount future cash flows over a five year period.

A real long term growth rate of 4% (2012: 3%) was used in the terminal value calculation which is in accordance with the latest “The Organisation for Economic Co-operation and Development” (OECD) estimates.

Using the above rates, the recoverable amount based on value in use as at 30 November 2013 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2013 in respect of TFK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

12. OTHER ASSETS

	2013 SR '000	2012 SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	**22,851**	41,886
- investments	**812,979**	813,085
- loans and advances	**787,065**	672,049
- derivatives	**45,679**	67,670
Total accrued special commission income receivable	**1,668,574**	1,594,690
Prepayments and accounts receivable	**404,645**	299,496
Margin deposits against derivatives and repos (notes 6.3, 14 and 31)	**437,307**	284,631
Positive fair value of derivatives, net (note 13)	**503,733**	389,390
Others	**2,683,926**	1,329,035
Total	**5,698,185**	3,897,242

13. DERIVATIVES

In the ordinary course of business, the Group utilizes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

13. DERIVATIVES (continued)

(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. Majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(13.1) 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.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 31 - credit risk, note 32 - market risk and note 33 - liquidity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

13. DERIVATIVES (continued)

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 year end, 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.

				(SR '000) Notional amounts by term to maturity				
2013	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	**197,790**	**(187,164)**	**18,630,107**	**-**	**729,836**	**16,465,104**	**1,435,166**	**12,952,404**
Forward foreign exchange contracts	**117,001**	**(90,446)**	**59,929,689**	**43,592,590**	**16,320,205**	**16,894**	**-**	**58,024,978**
Options	**1,860**	**(1,860)**	**660,509**	**545,872**	**114,636**	**-**	**-**	**3,700,735**
Structured derivatives	**155,251**	**(155,664)**	**42,491,314**	**5,940,282**	**18,668,254**	**17,882,778**	**-**	**49,037,201**
Held as fair value hedges:								
Special commission rate swaps	**-**	**(155,041)**	**843,750**	**-**	**-**	**843,750**	**-**	**843,750**
Held as cash flow hedges:								
Special commission rate swaps	**31,831**	**(48,246)**	**7,349,059**	**-**	**200,000**	**4,796,559**	**2,352,500**	**8,584,364**
Total fair value, net (note 12 & 17)	**503,733**	**(638,421)**	**129,904,428**	**50,078,744**	**36,032,931**	**40,005,085**	**3,787,666**	
	-	(0)						

				(SR '000) Notional amounts by term to maturity				
2012	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	137,164	(132,817)	7,073,932	6,500	543,096	5,765,169	759,166	6,427,670
Forward foreign exchange contracts	68,334	(55,573)	53,984,869	32,598,844	21,386,025	-	-	54,063,141
Options	32,552	(32,551)	2,781,723	1,128,923	1,193,648	459,152	-	4,164,488
Structured derivatives	50,016	(50,014)	22,156,663	4,641,936	11,716,532	5,798,196	-	46,201,354
Held as fair value hedges:								
Special commission rate swaps	-	(212,618)	843,750	-	-	93,750	750,000	1,092,969
Held as cash flow hedges:								
Special commission rate swaps	101,324	(9,965)	8,024,543	-	69,000	7,178,364	777,179	6,391,450
Total fair value, net (note 12 & 17)	389,390	(493,538)	94,865,480	38,376,203	34,908,301	19,294,631	2,286,345	
	-	-						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

13. DERIVATIVES (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

2013	**Fair value**	**Cost**	**Risk**	**(SR '000) Hedging instrument**	**Positive fair value**	**Negative fair value**
Description of hedged items						
Fixed rate instruments	**1,010,045**	**843,750**	Fair value	Special commission rate swap	-	**(155,041)**
Fixed rate and floating rate instruments	**7,386,839**	**7,349,059**	Cash flow	Special commission rate swap	**31,831**	**(48,246)**

2012	Fair value	Cost	Risk	(SR '000) Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Fixed rate instruments	980,140	843,750	Fair value	Special commission rate swap	-	(212,618)
Fixed rate and floating rate instruments	8,150,980	8,024,543	Cash flow	Special commission rate swap	101,324	(9,965)

The losses on the hedging instruments for fair value hedges are SR 58 million (2012: SR 217 million). The gains on the hedged items attributable to the hedged risk are SR 58 million (2012: SR 217 million). Thus, the net fair value is SR nil (2012: SR nil).

Approximately 9% (2012: 48%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 91% (2012: 52%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year	**SR' 000 1-3 years**	**3-5 years**	**Over 5 years**
2013				
Cash inflows (assets)	**220,922**	**319,727**	**150,280**	**207,842**
Cash outflows (liabilities)	**(171,632)**	**(275,242)**	**(180,589)**	**(311,737)**
Net cash inflows	**49,290**	**44,485**	**(30,309)**	**(103,895)**

	Within 1 year	SR' 000 1-3 years	3-5 years	Over 5 years
2012				
Cash inflows (assets)	214,036	398,802	95,025	8,251
Cash outflows (liabilities)	(173,868)	(331,185)	(102,219)	(11,892)
Net cash inflows	40,168	67,617	(7,194)	(3,641)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

13. DERIVATIVES (continued)

Cash flows hedges (continued)

The net gain on cash flow hedges reclassified to the income statement during the year was as follows:

	2013	2012
	SR '000	SR '000
Special commission income	**201,552**	179,339
Special commission expense	**(172,197)**	(133,450)
Net gain on cash flow hedges reclassified to the consolidated statement of income	**29,355**	45,889

Movements in the other reserve of cash flows hedges:

	2013	2012
	SR '000	SR '000
Balance at beginning of the year	**91,359**	56,885
Net gain on cash flow hedges reclassified to the consolidated statement of income	**(40,161)**	(45,889)
(Losses)/gain from changes in fair value recognised directly in equity, net (effective portion)	**(20,403)**	80,363
Balance at end of the year	**30,795**	91,359

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative gains of SR 10.8 million (2012: SR nil) from equity to consolidated statement of income, included in the gains above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 SR '000	2012 SR '000
Current accounts	**2,970,409**	3,928,846
Money market deposits	**14,467,698**	14,085,533
Repos (note 6.3)	**7,287,207**	7,559,797
Total	**24,725,314**	25,574,176

15. CUSTOMERS' DEPOSITS

	2013 SR '000	2012 SR '000
Current accounts	**234,988,516**	190,156,460
Savings	**148,015**	145,998
Time	**53,095,364**	70,533,589
Others	**12,369,780**	12,694,043
Total	**300,601,675**	273,530,090

Other customers' deposits include SR 3,531 million (2012: SR 3,963 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	2013 SR '000	2012 SR '000
Current accounts	**30,137,011**	11,879,096
Savings	**374**	883
Time	**31,415,619**	33,928,515
Others	**1,266,922**	1,185,084
Total	**62,819,926**	46,993,578

16. DEBT SECURITIES ISSUED

During May 2013, Turkiye Finans Katilim Bankasi, issued 5 year fixed rate non-convertible sukuk certificates amounting to US $500 million (SR 1,875 million). The certificates are listed on the Irish Stock Exchange and carry a fixed rate of 3.95% payable semi annually.

17. OTHER LIABILITIES

	2013 SR '000	2012 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	**35,259**	38,306
- customers' deposits	**206,296**	187,351
- derivatives	**55,451**	67,721
Total accrued special commission expense payable	**297,006**	293,378
Negative fair value of derivatives (note 13)	**638,421**	493,538
Zakat (NCB and NCBC)	**889,876**	478,753
Staff-related payables	**1,533,539**	1,476,180
Accrued expenses and accounts payable	**1,083,921**	955,836
Provisions for indirect facilities (note 7.3)	**430,503**	422,050
Others	**3,032,649**	2,631,557
Total	**7,905,915**	6,751,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank excluding treasury shares (see note 42) consists of 1,495,975,148 shares of SR 10 each (2012: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders.

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 December 2013). The proposed increase is subject to the approval of SAMA, Ministry of Commerce and Industry and the shareholders of the Bank in the next General Assembly Meeting.

19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to the Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity. These reserves are not available for distribution.

21. COMMITMENTS AND CONTINGENCIES

(21.1) Legal proceedings

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

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

Although the judgment dismissing plaintiffs' claims against the Bank became final upon denial of the petition for rehearing, the plaintiffs on 9 September 2013 sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition to the United States Supreme Court for a writ of certiorari. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common brief in opposition to the plaintiffs' petition for certiorari, which was filed in November 2013. In an order entered on December 16, 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S. government, a process that is likely to take several months. The Bank's legal counsel expects that the Supreme Court ultimately will deny plaintiffs' petition because the judgment dismissing the claims against the Bank has a strong basis in both law and fact as recognized by the Court of Appeals in its 16 April 2013 decision. The Supreme Court denied plaintiffs' earlier petition for certiorari involving the dismissal of claims against several Saudi government defendants, after inviting the Solicitor General to submit the views of the U.S. government.

(21.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2013 in respect of building and equipment purchases are not material to the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

21. COMMITMENTS AND CONTINGENCIES (continued)

(21.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
2013	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letter of credit	**16,731,014**	**2,808,346**	**920,100**	**14,020**	**20,473,480**
Guarantees	**10,957,279**	**19,875,983**	**11,998,811**	**5,321,763**	**48,153,836**
Acceptances	**2,118,005**	**1,200,104**	**55,218**	**7,693**	**3,381,020**
Irrevocable commitments to extend credit	**-**	**876,220**	**8,448,376**	**341,250**	**9,665,846**
Total	**29,806,298**	**24,760,653**	**21,422,505**	**5,684,726**	**81,674,182**

			(SR '000)		
2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letter of credit	15,771,031	3,884,382	1,688,471	13,224	21,357,108
Guarantees	13,079,479	17,219,246	15,089,850	5,248,855	50,637,430
Acceptances	2,567,054	877,185	41,228	4,880	3,490,347
Irrevocable commitments to extend credit	720,087	1,980,327	7,347,514	-	10,047,928
Total	32,137,651	23,961,140	24,167,063	5,266,959	85,532,813

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21. COMMITMENTS AND CONTINGENCIES (continued)

(b) The analysis of commitments and contingencies by counterparty is as follows:

	2013	2012
	SR '000	SR '000
Government and quasi Government	**5,976,544**	5,081,506
Corporate and establishment	**58,252,497**	61,458,243
Banks and other financial institutions	**16,583,853**	18,134,990
Others	**861,288**	858,074
Total	**81,674,182**	85,532,813

(21.4) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	2013	2012
	SR '000	SR '000
Less than 1 year	**222,329**	198,543
1 to 5 years	**606,025**	578,131
Over 5 years	**465,941**	484,911
Total	**1,294,295**	1,261,585

22. NET SPECIAL COMMISSION INCOME

	2013	2012
	SR '000	SR '000
Special commission income:		
Investments - available for sale	**491,605**	647,383
Investments - held to maturity	**51,429**	57,201
Other investments held at amortised cost	**2,132,489**	2,057,503
Sub total - investments	**2,675,523**	2,762,087
Due from banks and other financial institutions	**89,802**	109,241
Loans and advances	**8,960,493**	8,224,859
Total	**11,725,818**	11,096,187
Special commission expense:		
Due to banks and other financial institutions	**270,041**	205,421
Customers' deposits	**1,402,006**	1,931,184
Debt securities issued	**41,441**	-
Total	**1,713,488**	2,136,605
Net special commission income	**10,012,330**	8,959,582

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23. FEE INCOME FROM BANKING SERVICES, NET

	2013 SR '000	2012 SR '000
Fee income:		
Shares brokerage	**323,960**	516,883
Investment management services	**268,138**	279,548
Finance and lending	**1,471,258**	1,277,877
Credit card	**253,213**	239,826
Trade finance	**720,892**	712,448
Others	**196,462**	168,992
Total	**3,233,923**	3,195,574
Fee expenses:		
Shares brokerage	**56,589**	90,096
Investment management services	**10,930**	10,156
Credit card	**136,357**	125,939
Others	**11,395**	9,001
Total	**215,271**	235,192
Fees from banking services, net	**3,018,652**	2,960,382

Others includes fees from miscellaneous banking activities.

24. TRADING INCOME, NET

	2013 SR '000	2012 SR '000
Foreign exchange	**63,075**	40,715
Mutual funds	**4,876**	8,566
Derivatives	**32,602**	31,595
Total	**100,553**	80,876

25. GAINS ON NON-TRADING INVESTMENTS, NET

	2013 SR '000	2012 SR '000
Gains on available for sale investments, net	**563,565**	487,571
Gains on other investments held at amortised cost, net	**82,527**	114,185
Total	**646,092**	601,756

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26. OTHER NON-OPERATING (EXPENSES), NET

	2013	2012
	SR '000	SR '000
Income tax of foreign operations	**(159,695)**	(150,075)
Bank's share in associates' (losses) (note 8)	**(3,716)**	(5,944)
Gain on disposal of property and equipment	**15,250**	3,563
Net other (expenses)	**(35,799)**	(23,777)
Total	**(183,960)**	(176,233)

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2013 and 2012 is calculated by dividing the net income attributable to equity holders of the Bank for the year by the weighted average number of shares outstanding during the year (see note 18).

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

28. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended a dividend, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	2013	2012	**2013**	2012
Interim dividend paid	**1,196,780**	1,196,780	**0.80**	0.80
Proposed final dividend	**1,645,573**	1,495,975	**1.10**	1.00
Total net dividend	**2,842,353**	2,692,755	**1.90**	1.80
Zakat attributable to the Bank	**889,876**	451,650		
Total gross dividend	**3,732,229**	3,144,405		

Zakat assessments had been finalized with the Department of Zakat and Income Tax (DZIT) for all the years up to 2007. The Bank has submitted zakat returns for the years 2008 to 2012 and obtained limited zakat certificates. The DZIT has issued assessment for the years 2008 to 2011 and the bank has filed an appeal against the assessment which is currently under review by DZIT.

The zakat assessment for the year 2012 has not yet been issued by DZIT.

29. CASH AND CASH EQUIVALENTS

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

	2013	2012
	SR '000	SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**22,285,224**	25,747,923
Due from banks and other financial institutions with original maturity of three months or less (note 5)	**8,309,338**	12,340,282
Total	**30,594,562**	38,088,205

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30. OPERATING SEGMENTS

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

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

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

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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30. OPERATING SEGMENTS (continued)

(30.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

			(SR '000)			
2013	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**75,283,303**	**102,655,440**	**151,186,129**	**1,217,883**	**46,937,579**	**377,280,334**
Total liabilities	**147,537,332**	**132,618,779**	**17,382,034**	**262,079**	**36,943,930**	**334,744,154**
Fee income from banking services, net	**862,949**	**1,011,439**	**-**	**575,356**	**568,908**	**3,018,652**
Operating income	**5,310,796**	**3,392,080**	**3,387,768**	**604,631**	**2,167,668**	**14,862,943**
Operating expenses of which:	**3,503,309**	**801,604**	**364,317**	**402,714**	**1,565,397**	**6,637,341**
- Depreciation of property and equipment	**297,079**	**48,828**	**32,542**	**21,870**	**77,571**	**477,890**
- Impairment charge for credit losses, net	**451,015**	**107,067**	**-**	**-**	**237,263**	**795,345**
- Impairment charge on investments, net	**-**	**-**	**29,861**	**10,545**	**-**	**40,406**
Net income (Bank and non-controlling interests)	**1,854,109**	**2,594,599**	**3,033,184**	**111,476**	**395,608**	**7,988,976**

			(SR '000)			
2012	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	61,858,845	89,855,518	150,529,436	1,203,302	41,812,602	345,259,703
Total liabilities	136,677,454	119,012,012	20,438,672	251,811	29,475,609	305,855,558
Fee income from banking services, net	840,454	855,571	-	753,819	510,538	2,960,382
Operating income	5,091,660	2,315,643	3,232,212	768,736	2,100,660	13,508,911
Operating expenses of which:	2,978,932	1,466,890	285,022	415,997	1,514,582	6,661,423
- Depreciation of property and equipment	265,230	37,992	28,456	16,646	65,888	414,212
- Impairment charge for credit losses, net	203,928	885,576	-	-	346,508	1,436,012
- Impairment charge on investments, net	-	-	-	-	-	-
Net income (Bank and non-controlling interests)	2,138,177	812,968	2,897,745	340,943	423,493	6,613,326

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30. OPERATING SEGMENTS (continued)

(30.2) The Group's credit exposure, by business segments, is as follows:

			(SR '000)			
2013	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**58,975,796**	**95,366,168**	**126,661,224**	**141,613**	**42,996,091**	**324,140,892**
Commitments and contingencies (credit equivalent)	**302,106**	**24,757,199**	-	-	**14,281,519**	**39,340,824**
Derivatives (credit equivalent)	-	-	**1,206,028**	-	**149,394**	**1,355,422**

			(SR '000)			
2012	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	47,976,508	84,851,050	121,461,806	87,533	38,234,768	292,611,665
Commitments and contingencies (credit equivalent)	269,478	27,270,628	-	-	14,215,029	41,755,135
Derivatives (credit equivalent)	-	-	816,690	188	61,938	878,816

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

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31. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products and loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the loans and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in notes (13) and for commitments and contingencies in note (21). The information on the Bank's total maximum credit exposure is given in note (31.1).

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 7.4). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Group holds real estate collateral against transfer of title deed (*ifrag*) as a collateral but due to the difficulty in seizing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Financial instruments such as loans and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. The positive and negative fair values of derivatives are shown gross on the consolidated statement of financial position and no offsetting has been done (refer to notes 12 and 13). Collateral generally is not held against due from banks and other financial institutions, except when securities are held as part of reverse repurchase agreements (refer to note 5). The carrying amount and fair value of securities pledged and the margin deposit under agreements to repurchase (repo) are disclosed in notes 6.3, 12 and 14. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 and 2012.

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31. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.14 and 2.5(a)) for accounting policy of impairment of financial assets].

(31.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2013	2012
	SR '000	SR '000
Assets		
Due from banks and other financial institutions (note 5)	**14,831,332**	16,402,282
Investments (note 6.6)	**119,012,909**	110,479,483
Loans and advances, net (note 7.4)	**187,687,037**	163,461,189
Other assets - margin deposits against derivatives and repos, and accrued special commission income receivable (note 12)	**2,105,881**	1,879,321
Total assets	**323,637,159**	292,222,275
Contingent liabilities and commitments, net (notes 15,16 & 21.3)	**77,713,176**	81,148,105
Derivatives - positive fair value, net (note 13)	**503,733**	389,390
Total maximum exposure	**401,854,068**	373,759,770

32. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Group's Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(32.1) MARKET RISK-TRADING BOOK

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

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32. MARKET RISK (continued)

(32.1) MARKET RISK-TRADING BOOK (continued)

The table below shows the VaR related information for the year ended 31 December 2013 and 2012 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2013	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 31 December 2013	**30**	**27**	**57**	**211,037**
Average VaR for 2013	**26**	**26**	**52**	**189,540**

	(SR '000) Held for Trading			
2012	Foreign exchange risk	Special commission risk	Overall risk	FVIS
VaR as at 31 December 2012	3	13	16	125,125
Average VaR for 2012	14	16	30	221,424

(32.2) MARKET RISK - BANKING BOOK

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(32.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2013, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2013 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

2013	**Increase / decrease in basis points**	**Sensitivity of special commission income**	**SR '000 Sensitivity of equity (other reserves) Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Currency							
SR	**± 10**	**± 103,147**	**-**	**± 102**	**± 4,602**	**± 14,903**	**± 19,607**
USD	**± 10**	**± 18,622**	**± 40**	**± 1,286**	**± 14,937**	**± 49,329**	**± 65,592**

2012	Increase / decrease in basis points	Sensitivity of special commission income	SR '000 Sensitivity of equity (other reserves) Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10	± 85,258	-	± 23	± 46,954	± 1,133	± 48,110
USD	± 10	± 28,716	± 205	± 116	± 13,530	± 119,881	± 133,732

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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

	SR '000					
2013	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	17,182,881	-	-	-	21,906,807	39,089,688
Due from banks and other financial institutions	7,587,234	1,387,400	-	-	5,856,698	14,831,332
Investments, net	28,865,401	27,361,052	26,678,227	36,108,227	6,281,105	125,294,012
Loans and advances, net	41,276,826	65,172,535	72,553,934	8,302,473	381,269	187,687,037
Investment in associates, net	-	-	-	-	828,915	828,915
Other real estate, net	-	-	-	-	216,001	216,001
Property and equipment, net	-	-	-	-	2,761,528	2,761,528
Goodwill and other intangible assets, net	-	-	-	-	873,636	873,636
Other assets	-	-	-	-	5,698,185	5,698,185
Total assets	94,912,342	93,920,987	99,232,161	44,410,700	44,804,144	377,280,334
Liabilities and equity						
Due to banks and other financial institutions	17,980,817	3,064,925	3,387,900	-	291,672	24,725,314
Customers' deposits	40,144,428	13,657,159	332,371	-	246,467,717	300,601,675
Debt securities issued	-	-	1,511,250	-	-	1,511,250
Other liabilities	-	-	-	-	7,905,915	7,905,915
Equity attributable to equity holders of the Bank	-	-	-	-	40,933,907	40,933,907
Non-controlling interest	-	-	-	-	1,602,273	1,602,273
Total liabilities and equity	58,125,245	16,722,084	5,231,521	-	297,201,484	377,280,334
On-balance sheet gap	36,787,097	77,198,903	94,000,640	44,410,700	(252,397,340)	
Off-balance sheet gap	927,434	(619,434)	(2,098,000)	1,790,000	-	
Total special commission rate sensitivity gap	37,714,531	76,579,469	91,902,640	46,200,700	(252,397,340)	
Cumulative special commission rate sensitivity gap	37,714,531	114,294,000	206,196,640	252,397,340	-	

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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

SR '000

2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	22,016,849	-	-	-	18,281,579	40,298,428
Due from banks and other financial institutions	13,117,788	104,930	-	-	3,179,564	16,402,282
Investments, net	24,495,945	15,983,862	36,981,779	33,017,895	5,948,312	116,427,793
Loans and advances, net	42,744,259	63,462,521	51,493,434	5,404,217	356,758	163,461,189
Investment in associates, net	-	-	-	-	832,631	832,631
Other real estate, net	-	-	-	-	218,144	218,144
Property and equipment, net	-	-	-	-	2,549,896	2,549,896
Goodwill and other intangible assets, net	-	-	-	-	1,172,098	1,172,098
Other assets	-	-	-	-	3,897,242	3,897,242
Total assets	102,374,841	79,551,313	88,475,213	38,422,112	36,436,224	345,259,703
Liabilities and equity						
Due to banks and other financial institutions	14,571,829	6,349,658	1,122,101		3,530,588	25,574,176
Customers' deposits	56,309,588	15,250,402	427,623	-	201,542,477	273,530,090
Debt securities issued	-	-	-	-	-	-
Other liabilities	-	-	-	-	6,751,292	6,751,292
Equity attributable to equity holders of the Bank	-	-	-	-	37,703,631	37,703,631
Non-controlling interest	-	-	-	-	1,700,514	1,700,514
Total liabilities and equity	70,881,417	21,600,060	1,549,724	-	251,228,502	345,259,703
On-balance sheet gap	31,493,424	57,951,253	86,925,489	38,422,112	(214,792,278)	
Off-balance sheet gap	(670,518)	(518,954)	4,274,920	(3,085,448)	-	
Total special commission rate sensitivity gap	30,822,906	57,432,299	91,200,409	35,336,664	(214,792,278)	
Cumulative special commission rate sensitivity gap	30,822,906	88,255,205	179,455,614	214,792,278	-	

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

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31 DECEMBER 2013

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

At the year end, the Group had the following significant net exposures denominated in foreign currencies:

Currency	**2013 SR '000 Long (short)**	2012 SR '000 Long (short)
US Dollar	**109,945**	74,009
TRY	**4,497,811**	4,783,630

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2013 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2013 SR '000			2012 SR '000		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity
TRY	**± 10%**	**± 43,028**	**± 449,781**	± 10%	± 39,254	± 478,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Tadawul and held as available-for-sale at 31 December 2013 and 2012, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	2013 SR '000		2012 SR '000	
Market index - (Tadawul)	**Increase / decrease in market prices %**	**Effect on equity (other reserves)**	Increase / decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	**± 10%**	± 268,216	± 10%	± 209,614

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33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2013	2012
	%	%
As at 31 December	**28%**	38%
Average during the year	**30%**	37%

(33.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (33.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33. LIQUIDITY RISK (continued)

(33.1) Analysis of financial liabilities by remaining contractual maturities (continued)

			SR '000			
Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2013						
Due to banks and other financial institutions	**2,970,409**	**17,331,682**	**2,755,151**	**2,059,092**	**-**	**25,116,334**
Customers' deposits	**246,713,336**	**40,093,882**	**13,791,799**	**350,920**	**-**	**300,949,937**
Debt securities issued	**-**	**-**	**61,230**	**1,735,756**	**-**	**1,796,986**
Derivative financial instruments (gross contractual amounts payable)	**-**	**43,603,775**	**34,741,227**	**19,180,814**	**554,444**	**98,080,260**
Total undiscounted financial liabilities	**249,683,745**	**101,029,339**	**51,349,407**	**23,326,582**	**554,444**	**425,943,517**

			SR '000			
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2012						
Due to banks and other financial institutions	3,928,847	15,296,829	5,643,153	980,464	-	25,849,293
Customers' deposits	202,298,456	55,821,556	15,099,467	443,914	-	273,663,393
Debt securities issued	-	-	-	-	-	-
Derivative financial instruments (gross contractual amounts payable)	-	30,853,185	24,186,026	2,087,526	-	57,126,737
Total undiscounted financial liabilities	206,227,303	101,971,570	44,928,646	3,511,904	-	356,639,423

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.3(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (33.1) above for the contractual undiscounted financial liabilities.

2013	0-30 days	1 to 12 months	Over 1 year	No-fixed maturity	Total
			(SR '000)		
Assets					
Cash and balances with SAMA	17,182,881	-	5,102,343	16,804,464	39,089,688
Due from banks and other financial institutions	1,645,353	721,162	12,464,817	-	14,831,332
Investments, net	5,738,020	24,142,043	89,141,047	6,272,902	125,294,012
Loans and advances, net	39,050,708	44,005,059	104,631,270	-	187,687,037
Investment in associates, net	-	217,840	-	611,075	828,915
Other real estate, net	-	-	-	216,001	216,001
Property and equipment, net	-	-	-	2,761,528	2,761,528
Goodwill and other intangible assets, net	9,486	104,335	218,918	540,897	873,636
Other assets	-	-	-	5,698,185	5,698,185
Total assets	63,626,448	69,190,439	211,558,395	32,905,052	377,280,334
Liabilities and equity					
Due to banks and other financial institutions	14,504,190	402,819	6,847,909	2,970,396	24,725,314
Customers' deposits	13,767,007	6,629,748	45,762,004	234,442,916	300,601,675
Debt securities issued	-	-	1,511,250	-	1,511,250
Other liabilities	-	-	-	7,905,915	7,905,915
Total liabilities	28,271,197	7,032,567	54,121,163	245,319,227	334,744,154
Total equity	-	-	-	42,536,180	42,536,180
Total liabilities and equity	28,271,197	7,032,567	54,121,163	287,855,407	377,280,334

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33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

			(SR '000)		
2012	0-30 days	1 to 12 months	Over 1 year	No-fixed maturity	Total
Assets					
Cash and balances with SAMA	22,016,939	-	3,730,984	14,550,505	40,298,428
Due from banks and other financial institutions	1,760,380	797,904	13,843,998	-	16,402,282
Investments, net	15,270,949	21,365,236	73,215,312	6,576,296	116,427,793
Loans and advances, net	7,476,101	93,235,684	62,749,404	-	163,461,189
Investment in associates, net	-	-	-	832,631	832,631
Other real estate, net	-	-	-	218,144	218,144
Property and equipment, net	-	-	-	2,549,896	2,549,896
Goodwill and other intangible assets, net	11,259	123,849	394,928	642,062	1,172,098
Other assets	-	-	-	3,897,242	3,897,242
Total assets	46,535,628	115,522,673	153,934,626	29,266,776	345,259,703
Liabilities and equity					
Due to banks and other financial institutions	12,830,194	489,908	8,326,918	3,927,156	25,574,176
Customers' deposits	17,342,928	8,416,813	58,251,636	189,518,713	273,530,090
Debt securities issued	-	-	-	-	-
Other liabilities	-	-	-	6,751,292	6,751,292
Total liabilities	30,173,122	8,906,721	66,578,554	200,197,161	305,855,558
Total equity	-	-	-	39,404,145	39,404,145
Total liabilities and equity	30,173,122	8,906,721	66,578,554	239,601,306	345,259,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(34.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

	(SR '000)					
2013	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Assets						
Cash and balances with SAMA	**37,282,016**	**47,062**	**1,386,318**	**263,866**	**110,426**	**39,089,688**
Due from banks and other financial institutions	**4,289,007**	**1,649,642**	**765,358**	**7,756,561**	**370,764**	**14,831,332**
Investments, net	**48,187,286**	**24,768,304**	**4,753,176**	**2,443,653**	**45,141,593**	**125,294,012**
Loans and advances, net	**152,881,154**	**720,170**	**1,343,996**	**31,899,489**	**842,228**	**187,687,037**
Investment in associates, net	**828,915**	**-**	**-**		**-**	**828,915**
Goodwill and other intangible assets, net	**-**	**-**	**-**	**873,636**	**-**	**873,636**
Total	**243,468,378**	**27,185,178**	**8,248,848**	**43,237,205**	**46,465,011**	**368,604,620**
Liabilities						
Due to banks and other financial institutions	**393,064**	**10,050,553**	**630,754**	**7,080,023**	**6,570,920**	**24,725,314**
Customers' deposits	**273,373,233**	**296,464**	**24,652**	**26,857,411**	**49,915**	**300,601,675**
Debt securities issued	**-**	**-**	**-**	**1,511,250**	**-**	**1,511,250**
Total	**273,766,297**	**10,347,017**	**655,406**	**35,448,684**	**6,620,835**	**326,838,239**
Commitments and contingencies (note 21.3)	**51,852,554**	**1,629,267**	**2,033,437**	**15,697,651**	**10,461,273**	**81,674,182**
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	**26,043,287**	**590,241**	**610,143**	**8,234,742**	**3,862,411**	**39,340,824**
Derivatives	**805,038**	**178,520**	**222,400**	**149,464**	**-**	**1,355,422**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

2012	(SR '000) The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	39,534,597	34,802	445,712	213,442	69,875	40,298,428
Due from banks and other financial institutions	5,605,544	3,692,454	681,740	5,965,580	456,964	16,402,282
Investments, net	49,832,386	18,902,008	4,576,030	1,759,171	41,358,198	116,427,793
Loans and advances, net	132,573,758	3,055	1,901,843	26,994,066	1,988,467	163,461,189
Investment in associates, net	832,631	-	-	-	-	832,631
Goodwill and other intangible assets, net	-	-	-	1,172,098	-	1,172,098
Total	228,378,916	22,632,319	7,605,325	36,104,357	43,873,504	338,594,421
Liabilities						
Due to banks and other financial institutions	437,997	9,447,936	1,533,505	4,111,092	10,043,646	25,574,176
Customers' deposits	249,176,696	362,077	27,132	23,874,704	89,481	273,530,090
Debt securities issued	-	-	-	-	-	-
Total	249,614,693	9,810,013	1,560,637	27,985,796	10,133,127	299,104,266
Commitments and contingencies (note 21.3)	51,240,865	1,955,103	1,246,665	16,222,195	14,867,985	85,532,813
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	27,540,105	1,065,050	520,760	7,947,655	4,681,565	41,755,135
Derivatives	297,010	149,377	370,435	61,938	56	878,816

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(34.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

(SR '000)

2013	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Non performing loans and advances	**2,140,598**	**-**	**-**	**778,849**	**-**	**2,919,447**
Less: specific provision	**(1,881,542)**	**-**	**-**	**(552,385)**	**-**	**(2,433,927)**
Net	**259,056**	**-**	**-**	**226,464**	**-**	**485,520**
2012						
Non performing loans and advances	4,144,143	37,500	-	751,063	-	4,932,706
Less: specific provision	(3,979,730)	(37,500)	-	(542,930)	-	(4,560,160)
Net	164,413	-	-	208,133	-	372,546

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderlly transaction between market participants at the measurement date in the principal or, in its absence, the most adavantages market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

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

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36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments: Level 1: quoted prices in active markets for the same instrument.

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

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

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

	(SR '000)			
2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	**-**	**503,733**	**-**	**503,733**
Financial assets designated at FVIS	**6,039**	**1,592,122**	**473,854**	**2,072,015**
Financial assets available for sale	**15,238,429**	**11,351,195**	**1,072,204**	**27,661,828**
Held for trading	**673,060**	**-**	**-**	**673,060**
Total	**15,917,528**	**13,447,050**	**1,546,058**	**30,910,636**
Financial liabilites				
Derivative financial instruments	**-**	**638,421**	**-**	**638,421**
Total	**-**	**638,421**	**-**	**638,421**

	(SR '000)			
2012	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	389,634	-	389,634
Financial assets designated at FVIS	-	1,865,152	217,088	2,082,240
Financial investments available for sale	21,689,599	3,978,002	1,389,045	27,056,646
Held for trading	615,849	-	-	615,849
Total	22,305,448	6,232,788	1,606,133	30,144,369
Financial liabilites				
Derivative financial instruments	-	493,782	-	493,782
Total	-	493,782	-	493,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

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

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

Movement of level 3 is as follows:

	2013 SR '000	2012 SR '000
Balance at beginning of the year	**1,606,133**	2,027,069
Total gains/(losses) in consolidated income statement and comprehensive income	**(118,347)**	4,426
Purchases	**111,585**	224,513
(Sales)	**(294,003)**	(568,059)
(Settlements)	**(1,489)**	(7,014)
Transfer to/(from) level 3	**242,179**	(74,802)
Balance at end of the year	**1,546,058**	1,606,133

37. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(37.1) The balances as at 31 December included in the financial statements are as follows:

	2013 SR '000	2012 SR '000
Group's Board of Directors and senior executives:		
Loans and advances	**109,455**	163,858
Customers' deposits	**51,430**	28,799
Commitment and contingencies	**14,014**	7,849
Investments	**4,247**	8,002
Other liabilities - end of service benefits	**14,702**	25,357
Major shareholders:		
Customers' deposits	**18,823,547**	14,967,845
Investments	**237,029**	215,743
Bank's mutual funds:		
Investments	**652,345**	541,558
Customers' deposits	**242,278**	206,759

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

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37. RELATED PARTY TRANSACTIONS (continued)

(37.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2013 SR '000	2012 SR '000
Special commission income	**7,428**	7,529
Special commission expense	**161,346**	150,301
Fees and commission income and expense, net	**1,287**	421

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee); their remunerations, allowances and expenses are disclosed in the Board of Directors' report. For Bank's senior executives compensation, refer to note 38.

38. GROUP'S STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

	2013			2012		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR '000**	**Variable compensation (on cash basis) SR '000**	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000
Senior executives	**14**	**31,350**	**60,751**	14	30,939	41,988
Employees engaged in risk taking activities	**256**	**94,616**	**36,134**	221	81,940	19,381
Employees engaged in control functions	**318**	**104,782**	**24,963**	284	91,107	18,242
Other employees	**6,525**	**1,060,609**	**295,194**	6,231	986,698	204,535
Subsidiaries	**4,303**	**572,131**	**106,196**	3,929	523,582	83,508
Group total	**11,416**	**1,863,488**	**523,238**	10,679	1,714,266	367,654

All forms of payment for fixed and variable compensation are in cash.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2013 is SR 413.5 million (2012: SR 409.3 million) which will be paid to employees during quarter 1 of 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

39. CAPITAL ADEQUACY

(39.1) Capital adequacy ratio

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

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

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

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

	Eligible capital		**Capital Adequacy Ratio (Pillar 1)**	
	2013 **SR '000**	2012 SR '000	**2013** **%**	2012 %
Core capital (Tier 1)	**41,630,086**	38,199,378	**16.2%**	16.5%
Supplementary capital (Tier 2)	**2,375,797**	2,462,301	**-**	-
Core and supplementary capital (Tier 1 and Tier 2)	**44,005,883**	40,661,679	**17.1%**	17.5%

Tier 1 capital of the Group at the year end comprises share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less treasury shares, goodwill, intangible assets and other prescribed deductions. Tier 2 capital comprises a prescribed amount 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. The following table summarizes the Bank's Risk Weighted Assets.

	Risk weighted assets	
	2013 **SR '000**	2012 SR '000
Credit risk	**226,641,233**	203,732,065
Operational risk	**24,479,624**	22,208,627
Market risk	**5,707,726**	6,157,369
Total Pillar-1 - risk weighted assets	**256,828,583**	232,098,061

(39.2) BASEL III PILLAR 3 DISCLOSURES

Under Basel III pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website **www.alahli.com** as required by the Saudi Arabian Monetary Agency (SAMA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

40. MATERIAL PARTLY-OWNED SUBSIDIARIES

a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFK operate. The supervisory frameworks require TFK to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFK's assets and liabilities are SR 43,386 million and SR 38,827 million respectively (2012: SR 35,826 million and SR 31,119 million respectively).

b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFK) that has material non-controlling interests (NCI).

	2013	2012
	SR '000	SR '000
Summarised statement of financial position		
Loans and advances	**31,899,489**	26,994,066
Other assets	**11,487,247**	8,831,663
Liabilities	**38,827,175**	31,119,057
Net assets	**4,559,561**	4,706,672
Carrying amount of NCI	**1,537,789**	1,618,432
Summarised statement of income		
Total operating income	**2,122,870**	2,054,633
Net income	**403,611**	419,210
Total comprehensive income	**(401,133)**	759,448
Total comprehensive income allocated to NCI	**(135,289)**	**261,143**
Summarised cash flow statement		
Net cash (used in) from operating activities	**(108,298)**	816,456
Net cash (used in) by investing activities	**(798,120)**	(190,350)
Net cash from by financing activities	**1,185054**	314,445
Net increase in cash and cash equivalent	**278,636**	940,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

41. INVESTMENT SERVICES

The Bank offers investment management services to its customers through NCB capital. Assets under management outstanding at 31 December 2013 amounted to SR 49,112 million (2012: SR 41,019 million) (note 3.24).

42. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

43. COMPARATIVE FIGURES

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

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2014	IAS 32 – Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32)	IAS 32 amendment clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if an only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.
1 January 2014	IAS 39 – Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39)	The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.
1 January 2014	IFRS 10 - Consolidated Financial Statements (Investment Entities (Amendments))	This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.
1 January 2014	IAS 36 – Impairment of Assets	IAS 36 amendment applicable from 1 January 2014 address the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
The effective date has been deferred until the issue date of the completed version of IFRS 9 is known.	IFRS 9 – Financial Instruments	IFRS 9 (2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

45. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H).

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

31 DECEMBER 2012 AND AUDITORS' REPORT

Ernst & Young **KPMG Al Fozan & Al Sadhan**

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012 AND 2011

	Notes	2012 SR '000	2011 SR '000
ASSETS			
Cash and balances with SAMA	4	**40,298,428**	24,702,024
Due from banks and other financial institutions	5	**16,402,282**	11,561,490
Investments, net	6	**116,427,793**	120,489,168
Loans and advances, net	7	**163,479,092**	135,289,496
Investment in associates, net	8	**832,631**	838,575
Other real estate, net	9	**218,144**	249,169
Property and equipment	10	**2,549,896**	2,317,353
Goodwill and other intangible assets, net	11	**1,172,098**	1,230,943
Other assets	12	**3,939,769**	4,519,943
Total assets		**345,320,133**	301,198,161
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**25,574,176**	19,939,666
Customers' deposits	15	**273,530,090**	239,457,558
Other liabilities	16	**6,811,722**	6,215,683
Total liabilities		**305,915,988**	265,612,907
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	17	**15,000,000**	15,000,000
Treasury shares	41	**(177,093)**	(177,093)
Statutory reserve	18	**13,623,678**	12,105,333
Other reserves (cumulative changes in fair values)	19	**1,857,342**	1,918,274
Retained earnings		**7,051,299**	5,226,884
Proposed dividend	28	**1,495,975**	1,495,975
Foreign currency translation reserve		**(1,147,570)**	(1,404,155)
Total equity attributable to equity holders of the Bank		**37,703,631**	34,165,218
NON-CONTROLLING INTEREST		**1,700,514**	1,420,036
Total equity		**39,404,145**	35,585,254
Total liabilities and equity		**345,320,133**	301,198,161

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	Notes	2012 SR '000	2011 SR '000
Special commission income	21	**11,130,281**	10,185,103
Special commission expense	21	**(2,137,101)**	(1,603,677)
Net special commission income		**8,993,180**	8,581,426
Fee income from banking services, net	22	**3,002,806**	2,482,136
Exchange income, net		**547,111**	474,305
Income (loss) from FVIS investments, net	25	**115,571**	(86,704)
Trading income, net	23	**80,876**	147,469
Dividend income		**98,733**	65,626
Gains on non-trading investments, net	24	**601,756**	324,940
Other operating income, net		**163,109**	144,416
Total operating income		**13,603,142**	12,133,614
Salaries and employee-related expenses		**2,593,081**	2,480,154
Rent and premises-related expenses		**500,650**	449,452
Depreciation of property and equipment		**414,212**	352,377
Amortisation of intangible assets	11	**189,337**	197,880
Other general and administrative expenses		**1,566,138**	1,259,624
Impairment charge for credit losses, net	7.3	**1,470,108**	1,033,317
Impairment charge on investments, net	6.7	**-**	22,000
Total operating expenses		**6,733,526**	5,794,804
Income from operations, net		**6,869,616**	6,338,810
Other (expenses)			
Donations		**(57,929)**	(53,856)
Other non-operating (expenses), net	26	**(198,361)**	(178,835)
Net other (expenses)		**(256,290)**	(232,691)
Net income for the year		**6,613,326**	6,106,119
Net income for the year attributable to:			
Equity holders of the Bank		**6,452,804**	6,011,751
Non-controlling interest		**160,522**	94,368
Net income for the year		**6,613,326**	6,106,119
Basic and diluted earnings per share (expressed in SR per share)	27	**4.31**	4.02

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	Notes	2012 SR '000	2011 SR '000
Net income for the year		**6,613,326**	6,106,119
Other comprehensive income (loss):			
Foreign currency translation reserve - Gains/(losses)		**368,242**	(828,323)
Available for sale financial assets:			
- Net change in fair values		**360,940**	738,805
- Transfers to consolidated statement of income		**(451,681)**	(209,630)
- Impairment charge on investments (AFS)		**-**	22,000
Cash flow hedges:			
- Net change in fair values	13	**80,363**	80,561
- Transfers to consolidated statement of income		**(45,889)**	(53,095)
Total comprehensive income for the year		**6,925,301**	5,856,437
Attributable to:			
Equity holders of the Bank		**6,648,457**	6,036,010
Non-controlling interest		**276,844**	(179,573)
Total comprehensive income for the year		**6,925,301**	5,856,437

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

		Attributable to equity holders of the Bank										
					Other reserves							
	Notes	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets SR' 000	Cash flow hedge SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interest SR' 000	Total equity SR' 000
2012												
Balance as at 1 January 2012		**15,000,000**	**(177,093)**	**12,105,333**	**1,861,389**	**56,885**	**5,226,884**	**1,495,975**	**(1,404,155)**	**34,165,218**	**1,420,036**	**35,585,254**
Total comprehensive (loss)/income for the year		-	-	-	**(95,406)**	**34,474**	**6,452,804**	-	**256,585**	**6,648,457**	**276,844**	**6,925,301**
Transfer to statutory reserve	18	-	-	**1,518,345**	-	-	**(1,518,345)**	-	-	-	-	-
Adjustments in non-controlling interest and subsidiaries		-	-	-	-	-	**61,464**	-	-	**61,464**	**(74,779)**	**(13,315)**
Capital injection		-	-	-	-	-	-	-	-	-	**78,413**	**78,413**
Proposed final dividend for 2012	28	-	-	-	-	-	**(1,495,975)**	**1,495,975**	-	-	-	-
Zakat - NCB & NCBC (included in other liabilities)	16	-	-	-	-	-	**(478,753)**	-	-	**(478,753)**	-	**(478,753)**
Dividend paid for 2012 (interim) & 2011 (final)	28	-	-	-	-	-	**(1,196,780)**	**(1,495,975)**	-	**(2,692,755)**	-	**(2,692,755)**
Balance as at 31 December 2012		**15,000,000**	**(177,093)**	**13,623,678**	**1,765,983**	**91,359**	**7,051,299**	**1,495,975**	**(1,147,570)**	**37,703,631**	**1,700,514**	**39,404,145**
2011												
Balance as at 1 January 2011		15,000,000	(177,093)	10,655,725	1,289,301	29,419	3,807,791	1,495,975	(828,860)	31,272,258	1,584,435	32,856,693
Total comprehensive income/(loss) for the year		-	-	-	572,088	27,466	6,011,751	-	(575,295)	6,036,010	(179,573)	5,856,437
Transfer to statutory reserve		-	-	1,449,608	-	-	(1,449,608)	-	-	-	-	-
Adjustments in non-controlling interest and subsidiaries		-	-	-	-	-	2,469	-	-	2,469	16,249	18,718
Proposed final dividend for 2011	28	-	-	-	-	-	(1,495,975)	1,495,975	-	-	-	-
Zakat - NCB & NCBC (included in other liabilities)	16	-	-	-	-	-	(452,764)	-	-	(452,764)	(1,075)	(453,839)
Dividend paid for 2011 (interim) & 2010 (final)	28	-	-	-	-	-	(1,196,780)	(1,495,975)	-	(2,692,755)	-	(2,692,755)
Balance as at 31 December 2011		15,000,000	(177,093)	12,105,333	1,861,389	56,885	5,226,884	1,495,975	(1,404,155)	34,165,218	1,420,036	35,585,254

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	Notes	2012 SR' 000	2011 SR' 000
OPERATING ACTIVITIES			
Net income for the year		**6,613,326**	6,106,119
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium (accretion of discounts) on non-trading investments, net		**38,765**	(3,188)
(Gains) on non-trading investments, net		**(601,756)**	(324,940)
(Gains) on disposal of property and equipment, net	26	**(3,563)**	(13,749)
(Gains) on disposal of other real estate, net		**(34,824)**	(471)
(Gains) on disposal of other repossessed assets		**(9,195)**	(2,865)
Depreciation of property and equipment	10	**414,212**	352,377
Amortisation of intangible assets	11	**189,337**	197,880
Impairment charge for credit losses, net	7.3	**1,470,108**	1,033,317
Bank's share in associates' losses	26	**5,944**	12,658
Impairment charge on investments, net	6.7	-	22,000
Provision for unrealized revaluation losses of other real estate		-	6,365
		8,082,354	7,385,503
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		**(753,769)**	(1,643,065)
Due from banks and other financial institutions maturing after 90 days		**(2,310,750)**	(1,751,250)
Held for trading investments		**(107,339)**	78,600
Held as fair value through income statement (FVIS) investments		**1,027,404**	1,338,356
Loans and advances		**(28,609,039)**	(10,725,722)
Other real estate		**93,144**	11,884
Other assets		**1,048,423**	(409,976)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**5,450,948**	5,607,968
Customers' deposits		**32,884,176**	10,297,377
Other liabilities		**(101,467)**	(260,565)
Net cash from operating activities		**16,704,085**	9,929,110
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		**76,232,496**	118,256,283
Purchase of non-trading / non-FVIS investments		**(72,544,969)**	(131,049,879)
Purchase of property and equipment	10	**(655,952)**	(647,191)
Proceeds from disposal of property and equipment		**25,336**	34,577
Investment in associates		-	(23,768)
Net cash from (used in) investing activities		**3,056,911**	(13,429,978)
FINANCING ACTIVITIES			
Net movement in non-controlling interest		**97,035**	(2,532)
Dividends paid		**(1,495,975)**	(1,196,780)
Interim dividend paid		**(1,196,780)**	(1,495,975)
Cash (used in) financing activities		**(2,595,720)**	(2,695,287)
Net increase (decrease) in cash and cash equivalents		**17,165,276**	(6,196,155)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the year		**207,401**	(713,616)
Cash and cash equivalents at the beginning of the year		**20,715,528**	27,625,299
Cash and cash equivalents at the end of the year	29	**38,088,205**	20,715,528
Special commission received during the year		**10,870,633**	10,101,061
Special commission paid during the year		**2,130,491**	1,573,480
Supplemental non-cash information			
Movement in other reserve and transfers to consolidated statement of income		**(56,267)**	578,641

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

1. GENERAL

(1.1) **Introduction**

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

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and 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 operates through its 290 branches (2011: 288 branches), 9 corporate service centres (2011: 7 centres) and 28 QuickPay remittance centers (2011: 25 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). 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
http://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.

(1.2) **Group's subsidiaries**

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

(a) NCB Capital Company

In April 2007, the Bank formed a capital market company, namely, NCB Capital Company, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia. The Bank has 90.71% (2011: 90.71%) direct ownership interest in NCB Capital Company and an indirect ownership of 1.96% (2011: 3.83%) (the indirect ownership is held via an intermediary Trust for future grant to NCB Capital employees).

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

The Bank has 65.61% (2011: 64.68%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. On 6 June 2012 TFK shareholders resolved to increase the capital from Turkish Lira (TL) 800 to TL 1,775 million through capitalization of retained earnings of TL 700 million and cash contribution of TL 275 million. The Bank's share of such cash contribution was TL 206 million payable through installments of TL 112 million (SR 234 million) on 2 October 2012 and TL 94 million (SR197 million) on 31 December 2012, which have been paid on respective dates. On 9 November 2012 Central Bank of Turkey (BRSA) authorized to effect capitalization of retained earnings and the first installment and therefore the share capital of Turkish Bank has been increased to TL 1,650 million as at 31 December 2012. The capitalization of second installment is currently pending with BRSA and is expected to be approved during Q1 2013.

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has 71.36% (2011: 72.80%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCB Capital. NCB Capital Company acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

1. GENERAL (continued)

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

(d) The Capital Partnership Group Limited (TCP)

TCP was incorporated and registered in the Dubai International Financial Centre on 1 November 2006 with the principal activity to provide investment management services. NCB Capital Company acquired 100% ownership interest of TCP on 1 October 2008 and subsequently disposed off its 22% ownership interest on 30 June 2009 without losing control. On 7 July 2012, NCB Capital Company disposed off remaining 78% ownership interest through capital pay-out and accordingly acquired investments of TCP amounting to SR 96 million (Note 6).

(e) Real Estate Development Company

The Bank formed Real Estate Development Company (the Company) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has 100% ownership (2011: 100%) in the Company. The objectives of the Company primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

2. BASIS OF PREPARATION

(2.1) **Statement of compliance**

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are prepared in compliance with Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) **Basis of measurement**

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) **Functional and presentation currency**

These 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**

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries, Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Group reviews its loan portfolios to assess an additional portfolio (collective) provision on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, valuation models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that created the model. To the extent practical, models use only observable market data; however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) Impairment of available for sale equity investments

The Group exercises judgment to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(f) Impairment of non-financial assets (continued)

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(3.1) **Change in accounting policies**

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

Amendment to IFRS 7 – Financial Instruments: Disclosures

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

Other amendments resulting from Improvements to IFRSs relating to IAS 12 Income Taxes (amendment) – Deferred Taxes did not have any impact on the accounting policies, consolidated financial position or performance of the Group.

(3.2) **Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) **Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and valuation models as appropriate.

(3.3.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3.2) 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.

(3.3.3) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) **Derivative financial instruments and hedge accounting (continued)**

(3.3.5) Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is immediately transferred to the consolidated statement of income.

(3.4) **Foreign currencies**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB and NCB Capital is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate and TCP is U.S. Dollars.

(a) Transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are retranslated into functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the statement of income in ‘Other operating expenses’ or ‘Other operating income’ at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) **Offsetting financial instruments**

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.6) **Revenue / expenses recognition**

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

Dividend income is recognized when the right to receive dividend income is established.

Fees income and expenses are recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) **Trading income (loss), net**

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.8) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the bank retains substantially all the risks and rewards of ownership. These assets are continued to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) **Sale and repurchase agreements (continued)**

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA, due from banks and other financial institutions or loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.9) **Business combinations**

Business combinations are accounted for using the purchase method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expenses as incurred and included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group’s accounting policy.

(a) Subsidiaries

Subsidiaries are all entities over which the Bank has the direct and indirect power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

(b) Non-controlling interests

Non-controlling interest 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 consolidated statement of income and within equity in the consolidated statement of financial position, separately from Bank 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 balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity over which the Bank exerts control (see note 2.4). Where the Bank does not have effective control but has significant influence, such investment is then regarded as an associate and accounted for under the equity accounting method (see note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) **Business combinations (continued)**

(c) Associates (continued)

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 consolidated statement of income, such that the carrying amount of investment in the balance sheet remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

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

(3.10) **Goodwill and other intangible assets**

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(b) Other intangible assets

Intangible assets in the statement of financial position comprise of customer deposits relationships, the value of the subsidiary's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 4-5 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction cost except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

(b) Held at fair value through income statement (FVIS)

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments (continued)**

(c) Available for sale (AFS)

Available-for-sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

(3.12) **Loans and advances**

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and advances are initially measured at fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

For presentation purposes, provision for credit losses is deducted from loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.13) **Due from banks and other financial institutions**

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.14) **Impairment of financial assets**

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses of corporate loans, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, which treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective yield rate.

Consumer loans are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer loans are based on a collective “pool” basis, rather than on individual loans, the provisions for consumer loans are also computed on a “pool basis” using the ‘flow rate” methodology. The provision coverage is 100% for such non-performing loans which reach the “write-off point” (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) **Impairment of financial assets (continued)**

(b) Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as provision for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) **Other real estate and repossessed assets**

The Group, in the ordinary course of business, acquires certain real estate and other assets against settlement of due loans and advances. These are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of such related assets, less any costs to sell (if material). No depreciation is charged on such assets.

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain on disposal of repossessed assets are included in other operating income, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.16) **Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

All such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(3.17) **Financial liabilities**

All money market deposits, customers' deposits issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.18) **Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

(3.19) **Provisions**

Provisions (other than impairment of credit losses and investments) are recognized when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.20) **Accounting for leases**

(a) Where the Group is the lessee

All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognized as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) **Zakat and overseas income tax**

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on their behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of country in which they are incorporated and such taxes are reported under non-operating expenses.

(3.22) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) **Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.24) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and its subsidiaries and, accordingly, are not included in the consolidated financial statements of the Group.

(3.25) **Financing products in compliance with *Shariah* rules**

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with customer specifications. The Bank signs Istisna'a contracts with customers to provide specified assets at agreed-upon prices (equal to the Bank's cost plus a specified profit margin) and payment terms. The Bank then signs parallel Istisna'a agreements with manufacturers for the delivery of these assets in return for settlement of the costs by the Bank.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these financial statements. They are included in loans and advances.

(3.26) **Shariah-compliant deposit products**

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

Alkhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

This Shariah-compliant deposit product is accounted for in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) **Treasury shares**

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

(3.28) **End of Service Benefits**

The provision for end of service benefits is based on the rules stated under The Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

(3.29) **Staff Compensation**

The Bank's Board of Directors and its Nomination and Compensation Committee oversee the design and implementation of the Bank's Compensation process in accordance with SAMA's Compensation Rules & Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Compensation and Nomination Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities have been reviewed and updated in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation process and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.29.1) Fixed Compensation

The fixed compensation comprises salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation grade structure and pay scales. The competitiveness of the pay scales is maintained through participation in periodic and regular market pay surveys.

(3.29.2) Variable Compensation

Variable compensation aims at driving performance and limit excessive risk-taking. The Bank operates two plans under variable compensation:

(a) Annual Performance Bonus

The annual performance bonus aims at supporting the achivement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Bank business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employee development, teamwork, staff morale.

The Bank has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Bank's overall results. The overall annual performance bonus pool is set as a percentage of the Bank's net income, adjusted to reflect the core performance of the employees. The Bank does not have a guaranteed bonus plan.

The cost of this plan is recognized in the statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.29) **Staff Compensation (continued)**

(3.29.2) Variable Compensation (continued)

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long-term corporate success, measured on the basis of return on equity (ROE) attributable to the equity holders of the Bank. The plan is rolled out in three-year cycles. The Bank's actual performance is assessed at the end of each cycle as a basis for determining the actual payout amount.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection is made through rigorous vetting to ensure that other critical participation criteria are met.

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The three year cost estimate is apportioned and charged equally to the statement of income of each year in the cycle. As the estimate is revised annually, the difference between the latest and the previous estimate is apportioned and charged equally over the remainder of the cycle.

4. CASH AND BALANCES WITH SAMA

	2012 **SR '000**	2011 SR '000
Cash in hand	**3,730,621**	3,247,183
Balances with SAMA:		
Statutory deposit	**14,550,505**	13,796,736
Current accounts	**453**	158
Money market placements	**22,016,849**	7,657,947
Total	**40,298,428**	24,702,024

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 33). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012 SR '000	2011 SR '000
Current accounts	**3,737,548**	2,961,824
Money market placements, net	**12,664,734**	8,599,666
Due from banks and other financial institutions, net	**16,402,282**	11,561,490

The credit quality of due from banks and other financial institutions is managed using credit ratings, as determined by reputable external credit rating agencies (see note 31).

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2012 SR '000	2011 SR '000	**2012 SR '000**	2011 SR '000	**2012 SR '000**	2011 SR '000
Mutual funds	**541,561**	508,510	**74,288**	-	**615,849**	508,510
Held for trading	**541,561**	508,510	**74,288**	-	**615,849**	508,510

(b) Held as FVIS

	Domestic		International		Total	
	2012 SR '000	2011 SR '000	**2012 SR '000**	2011 SR '000	**2012 SR '000**	2011 SR '000
Hedge funds and externally managed portfolio	-	-	**2,082,240**	3,109,644	**2,082,240**	3,109,644
Held as FVIS	-	-	**2,082,240**	3,109,644	**2,082,240**	3,109,644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

6. INVESTMENTS, NET (continued)

(c) Available for sale

	Domestic		International		Total	
	2012 SR '000	2011 SR '000	**2012 SR '000**	2011 SR '000	**2012 SR '000**	**2011** SR '000
Fixed rate securities	**66,944**	309,278	**20,379,175**	24,188,536	**20,446,119**	24,497,814
Floating rate securities	-	-	**3,499,658**	4,724,271	**3,499,658**	4,724,271
Equity instruments	**2,143,039**	2,158,718	**1,792,466**	1,804,024	**3,935,505**	3,962,742
Others	-	-	**255,000**	214,768	**255,000**	214,768
Available for sale, gross	**2,209,983**	2,467,996	**25,926,299**	30,931,599	**28,136,282**	33,399,595
Provision for impairment	**(50,197)**	(25,527)	**(1,029,439)**	(1,107,320)	**(1,079,636)**	(1,132,847)
Available for sale, net	**2,159,786**	2,442,469	**24,896,860**	29,824,279	**27,056,646**	32,266,748

(d) Held to maturity

	Domestic		International		Total	
	2012 SR '000	2011 SR '000	**2012 SR '000**	2011 SR '000	**2012 SR '000**	2011 SR '000
Fixed rate securities	-	-	**1,403,653**	2,154,228	**1,403,653**	2,154,228
Floating rate securities	-	-	**5,545**	13,554	**5,545**	13,554
Held to maturity, gross	-	-	**1,409,198**	2,167,782	**1,409,198**	2,167,782
Provision for impairment	-	-	**(1,494)**	(1,494)	**(1,494)**	(1,494)
Held to maturity, net	-	-	**1,407,704**	2,166,288	**1,407,704**	2,166,288

(e) Other investments held at amortised cost

	Domestic		International		Total	
	2012 SR '000	2011 SR '000	**2012 SR '000**	2011 SR '000	**2012 SR '000**	2011 SR '000
Fixed rate securities	**42,336,021**	51,280,245	**33,154,809**	25,669,499	**75,490,830**	76,949,744
Floating rate securities	**4,795,018**	4,700,024	**4,984,763**	797,063	**9,779,781**	5,497,087
Other investments held at amortised cost, gross	**47,131,039**	55,980,269	**38,139,572**	26,466,562	**85,270,611**	82,446,831
Provision for impairment	-	-	**(5,257)**	(8,853)	**(5,257)**	(8,853)
Other investments held at amortised cost, net	**47,131,039**	55,980,269	**38,134,315**	26,457,709	**85,265,354**	82,437,978
Investments, net	**49,832,386**	58,931,248	**66,595,407**	61,557,920	**116,427,793**	120,489,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

6. INVESTMENTS, NET (continued)

(6.2) The analysis of the composition of investments is as follows:

	2012 SR '000			2011 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**21,827,273**	**75,513,329**	**97,340,602**	26,652,042	76,949,744	103,601,786
Floating rate securities	**3,499,657**	**9,785,327**	**13,284,984**	4,737,825	5,497,087	10,234,912
Hedge funds and externally managed portfolio	**-**	**2,082,240**	**2,082,240**	-	3,109,645	3,109,645
Equity instruments	**2,096,136**	**1,839,369**	**3,935,505**	2,111,816	1,850,925	3,962,741
Others	**615,849**	**255,000**	**870,849**	508,510	214,768	723,278
Investments, gross	**28,038,915**	**89,475,265**	**117,514,180**	34,010,193	87,622,169	121,632,362
Provision for impairment	**(355,432)**	**(730,955)**	**(1,086,387)**	(217,238)	(925,956)	(1,143,194)
Investments, net	**27,683,483**	**88,744,310**	**116,427,793**	33,792,955	86,696,213	120,489,168

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds, and asset-backed securities including Collateralized Debt Obligations (CDOs) and Collateralized Loans Obligations (CLOs).

Others include Structured Credit and Mutual Funds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities that although are quoted but for which there is no active market. The carrying value of such securities amounts to SR 39,603 million (2011: SR 24,557 million).

Unquoted equity instruments include unquoted investments amounting to SR 68.7 million (2011: SR 72.4 million), net of provision for impairment, that are carried at cost as their fair values cannot be reliably measured.

(6.3) Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the absence of default by the Bank (see note 14).

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2012 SR '000		2011 SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**4,637,558**	**4,637,558**	11,829,776	11,829,776
Held to maturity	**1,030,394**	**1,101,893**	-	-
Investments held at amortised cost	**1,694,833**	**1,756,595**	299,351	315,818
Total	**7,362,785**	**7,496,046**	12,129,127	12,145,594

The Bank has placed a margin deposit of SR 17 million (2011: SR 34 million) as an additional security for these repo transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

6. INVESTMENTS, NET (continued)

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortised cost are as follows:

(a) Held to maturity

	2012 SR '000				2011 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**1,403,653**	**119,086**	**-**	**1,522,739**	2,154,228	123,555	-	2,277,783
Floating rate securities	**5,545**	**-**	**(9)**	**5,536**	13,554	-	(268)	13,286
Held to maturity, gross	**1,409,198**	**119,086**	**(9)**	**1,528,275**	2,167,782	123,555	(268)	2,291,069
Provision for impairment	**(1,494)**	**-**	**-**	**(1,494)**	(1,494)	-	-	(1,494)
Total	**1,407,704**	**119,086**	**(9)**	**1,526,781**	2,166,288	123,555	(268)	2,289,575

(b) Other investments held at amortised cost

	2012 SR '000				2011 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**75,490,830**	**2,600,825**	**(117,076)**	**77,974,579**	76,949,744	2,236,856	(114,334)	79,072,266
Floating rate securities	**9,779,781**	**191,843**	**(3,568)**	**9,968,056**	5,497,087	120,914	(309)	5,617,692
Other investments held at amortised cost, gross	**85,270,611**	**2,792,668**	**(120,644)**	**87,942,635**	82,446,831	2,357,770	(114,643)	84,689,958
Provision for impairment	**(5,257)**	**-**	**-**	**(5,257)**	(8,853)	-	-	(8,853)
Total	**85,265,354**	**2,792,668**	**(120,644)**	**87,937,378**	82,437,978	2,357,770	(114,643)	84,681,105

(6.5) Counterparty analysis of the Group's investment, net of provisions

	Investment, net	
	2012 SR '000	2011 SR '000
Government and quasi Government	**102,530,270**	110,918,711
Corporate	**7,757,002**	6,503,687
Banks and other financial institutions	**6,140,521**	3,066,770
Total	**116,427,793**	120,489,168

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6. INVESTMENTS, NET (continued)

(6.6) Credit quality of investments

The credit quality of investments (excluding investment in equity instruments, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	Investments	
	2012	2011
	SR '000	SR '000
Performing:		
Saudi Government Bonds and Treasury Bills	**35,649,563**	49,295,609
Investment grade	**73,436,635**	62,513,747
Non-Investment grade	**1,441,637**	2,004,592
Unrated	**298,817**	185,463
Total performing	**110,826,652**	113,999,411
Less: portfolio (collective) provision	**(347,169)**	(453,085)
Net performing	**110,479,483**	113,546,326

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

The unrated investments comprise Structured Credit Investments.

(6.7) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	2012	2011
	SR '000	SR '000
Balance at beginning of the year	**1,143,194**	1,563,038
Net charge for the year (impairment charge on investments, net)	**-**	22,000
(Written-off) against investments sold	**(56,807)**	(441,844)
Balance at the end of the year	**1,086,387**	1,143,194

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7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2012					
Performing loans and advances	**2,024,305**	**49,539,012**	**108,718,702**	**5,302,844**	**165,584,863**
Non-performing loans and advances	**79,408**	**235,431**	**4,479,239**	**155,280**	**4,949,358**
Total loans and advances	**2,103,713**	**49,774,443**	**113,197,941**	**5,458,124**	**170,534,221**
Provision for credit losses	**(111,728)**	**(808,975)**	**(5,966,892)**	**(167,534)**	**(7,055,129)**
Loans & advances, net	**1,991,985**	**48,965,468**	**107,231,049**	**5,290,590**	**163,479,092**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2011					
Performing loans and advances	1,779,329	38,423,592	92,902,974	3,928,963	137,034,858
Non-performing loans and advances	79,745	203,127	3,782,980	205,417	4,271,269
Total loans and advances	1,859,074	38,626,719	96,685,954	4,134,380	141,306,127
Provision for credit losses	(116,385)	(745,305)	(4,927,424)	(227,517)	(6,016,631)
Loans & advances, net	1,742,689	37,881,414	91,758,530	3,906,863	135,289,496

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with *Shariah* rules mainly Murabaha, Tayseer and Ijara which are stated at cost less provisions for credit losses of SR 104,229 million (2011: SR 80,967 million).

Provision for credit losses related to financing products in compliance with *Shariah* rules is SR 2,652 million (2011: SR 1,771 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. LOANS AND ADVANCES, NET (continued)

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2012					
Balance at beginning of the year	**116,385**	**745,305**	**4,927,424**	**227,517**	**6,016,631**
Foreign currency translation adjustment	**616**	**1,892**	**25,651**	**-**	**28,159**
Provided (reversed) during the year	**95,191**	**492,281**	**1,222,706**	**(24,387)**	**1,785,791**
Bad debts (written off)	**(96,011)**	**(426,336)**	**(70,228)**	**(35,596)**	**(628,171)**
(Recoveries) of amounts previously provided	**(4,453)**	**(4,167)**	**(138,661)**	**-**	**(147,281)**
Balance at the end of the year	**111,728**	**808,975**	**5,966,892**	**167,534**	**7,055,129**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2011					
Balance at beginning of the year	129,792	845,873	4,836,465	224,876	6,037,006
Foreign currency translation adjustment	**(395)**	**(21,606)**	**(57,142)**	-	**(79,143)**
Provided during the year	90,365	567,375	761,321	36,200	1,455,261
Bad debts (written off)	(102,793)	(642,266)	(504,265)	(33,559)	(1,282,883)
(Recoveries) of amounts previously provided	(584)	(4,071)	(108,955)	-	(113,610)
Balance at the end of the year	116,385	745,305	4,927,424	227,517	6,016,631

(7.3) Net impairment charge for credit losses for the year in the consolidated statement of income:

	2012	2011
	SR '000	SR '000
Addition during the year	**1,785,791**	1,455,261
(Recoveries) of amounts previously provided	**(147,281)**	(113,610)
	1,638,510	1,341,651
Provision against indirect facilities (included in other liabilities) (note 16)	**162,519**	11,479
(Recoveries) of debts previously written-off	**(337,063)**	(346,756)
Direct write-off	**6,142**	26,943
Net charge for the year (impairment charge for credit losses, net)	**1,470,108**	1,033,317

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

The credit quality of loans and advances is managed using internal credit ratings. The table below shows the credit quality by class of asset.

	SR '000			
	Consumer and Credit cards	Corporate	Others	Total
2012				
Performing:				
Neither past due nor impaired (performing)				
Level 1	-	77,240,888	3,909,573	81,150,461
Level 2	-	19,390,065	-	19,390,065
Level 3	-	4,545,335	-	4,545,335
Level 4	-	3,927,614	-	3,927,614
Standard - unrated	49,644,644	1,746,061	1,333,779	52,724,484
Total	49,644,644	106,849,963	5,243,352	161,737,959
Past due but not impaired (performing)				
Less than 30 days	1,473,724	1,048,920	711	2,523,355
30-59 days	279,338	532,127	58,781	870,246
60-90 days	165,611	287,692	-	453,303
Sub Total	1,918,673	1,868,739	59,492	3,846,904
Total performing	51,563,317	108,718,702	5,302,844	165,584,863
Less: portfolio (collective) provision	(674,332)	(1,790,391)	(30,246)	(2,494,969)
Net performing	50,888,985	106,928,311	5,272,598	163,089,894
Non-performing:				
Total non-performing	314,839	4,479,239	155,280	4,949,358
Less: specific provision	(246,371)	(4,176,501)	(137,288)	(4,560,160)
Net non-performing	68,468	302,738	17,992	389,198
Total loans & advances, net	50,957,453	107,231,049	5,290,590	163,479,092

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances (continued)

	SR '000			
	Consumer and Credit cards	Corporate	Others	Total
2011				
Performing:				
Neither past due nor impaired (performing)				
Level 1	-	61,988,950	2,570,649	64,559,599
Level 2	-	18,667,801	-	18,667,801
Level 3	-	4,749,174	-	4,749,174
Level 4	-	3,379,661	-	3,379,661
Standard - unrated	38,562,409	2,069,653	1,319,858	41,951,920
Total	38,562,409	90,855,239	3,890,507	133,308,155
Past due but not impaired (performing)				
Less than 30 days	1,266,575	841,947	662	2,109,184
30-59 days	236,019	859,924	4,588	1,100,531
60-90 days	137,918	345,864	33,206	516,988
Sub Total	1,640,512	2,047,735	38,456	3,726,703
Total performing	40,202,921	92,902,974	3,928,963	137,034,858
Less: portfolio (collective) provision	(663,862)	(1,348,144)	(32,888)	(2,044,894)
Net performing	39,539,059	91,554,830	3,896,075	134,989,964
Non-performing:				
Total non-performing	282,872	3,782,980	205,417	4,271,269
Less: specific provision	(197,829)	(3,579,281)	(194,627)	(3,971,737)
Net non-performing	85,043	203,699	10,790	299,532
Total loans & advances, net	39,624,102	91,758,529	3,906,865	135,289,496

Standard - unrated loans mainly comprise consumer, credit cards, small businesses and private banking loans.

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31 DECEMBER 2012

7. LOANS AND ADVANCES, NET (continued)

(7.4) Credit quality of loans and advances (continued)

Collateral

The Bank, in the ordinary course of lending activities, holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by Bank against loans and advances by each category are as follows:

	2012 **SR '000**	2011 SR '000
Neither past due nor impaired	**46,992,590**	37,658,460
Past due but not impaired	**1,839,121**	1,705,401
Impaired	**635,620**	498,275
Total	**49,467,331**	39,862,136

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Bank with intent to dispose off in case of default by the customer.

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7. LOANS AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

2012	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Loans and advances, net SR' 000
Government and quasi Government	**1,802,969**	-	-	**1,802,969**
Banks and other financial institutions	**3,806,419**	**42,649**	**(42,464)**	**3,806,604**
Agriculture and fishing	**635,787**	**23,275**	**(12,043)**	**647,019**
Manufacturing	**26,296,747**	**348,424**	**(296,075)**	**26,349,096**
Electricity, water, gas and health services	**9,179,088**	**34,227**	**(25,936)**	**9,187,379**
Building and construction	**11,690,632**	**1,531,934**	**(1,494,631)**	**11,727,935**
Commerce	**31,896,977**	**2,258,505**	**(2,153,959)**	**32,001,523**
Transportation and communication	**9,920,928**	**106,612**	**(88,169)**	**9,939,371**
Services	**15,902,983**	**141,152**	**(86,451)**	**15,957,684**
Consumer loans and credit cards	**51,563,317**	**314,838**	**(246,370)**	**51,631,785**
Others	**2,889,016**	**147,742**	**(114,062)**	**2,922,696**
	165,584,863	**4,949,358**	**(4,560,160)**	**165,974,061**
Portfolio (collective) provision				**(2,494,969)**
Loans and advances, net				**163,479,092**

2011	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Loans and advances, net SR' 000
Government and quasi Government	3,639,760	-	-	3,639,760
Banks and other financial institutions	2,684,239	37,585	(37,543)	2,684,281
Agriculture and fishing	619,418	8,597	(6,956)	621,059
Manufacturing	20,352,974	272,636	(213,794)	20,411,816
Electricity, water, gas and health services	6,487,151	35,708	(31,027)	6,491,832
Building and construction	8,504,269	1,078,641	(1,042,821)	8,540,089
Commerce	26,669,474	2,218,365	(2,136,169)	26,751,670
Transportation and communication	9,221,332	59,224	(55,563)	9,224,993
Services	15,843,284	80,566	(74,988)	15,848,862
Consumer loans and credit cards	40,202,921	282,872	(197,829)	40,287,964
Others	2,810,036	197,075	(175,047)	2,832,064
	137,034,858	4,271,269	(3,971,737)	137,334,390
Portfolio (collective) provision				(2,044,894)
Loans and advances, net				135,289,496

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7. LOANS AND ADVANCES, NET (continued)

(7.6) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	2012 SR '000	2011 SR '000
Gross receivables from finance leases:		
Less than 1 year	**1,699,223**	1,307,312
1 to 5 years	**4,776,621**	3,673,460
Over 5 years	**6,749,995**	2,595,016
	13,225,839	7,575,788
Unearned finance income on finance leases	**(3,213,835)**	(1,676,482)
Net receivables from finance leases	**10,012,004**	5,899,306

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 365 million (2011: SR 294 million).

8. INVESTMENT IN ASSOCIATES, NET

	2012 SR '000	2011 SR '000
Cost:		
At beginning of the year	**1,487,450**	1,463,682
Additions	**-**	24,000
Partial redemption	**-**	(232)
At 31 December	**1,487,450**	1,487,450
Provision for impairment and share of losses:		
At beginning of the year	**(648,875)**	(636,217)
Additions, net (note 26)	**(5,944)**	(12,658)
At 31 December	**(654,819)**	(648,875)
Investment in associates, net	**832,631**	838,575

Investment in associates represents a 60% (2011: 60%) ownership interest in the Commercial Real Estate Markets Company (see note 3.9(d)), 30% (2011: 30%) ownership interest in each of Al Behar Real Estate Investment Company and Al-Ahli Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

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9. OTHER REAL ESTATE, NET

	2012 **SR '000**	2011 SR '000
Cost:		
At beginning of the year	**357,121**	368,394
Additions	**24,219**	33,151
Disposals	**(76,518)**	(44,424)
At 31 December	**304,822**	357,121
Provision and foreign currency translation:		
Foreign currency translation adjustment	**(9,642)**	(12,718)
Provision for unrealized revaluation losses	**(77,036)**	(95,234)
At 31 December	**(86,678)**	(107,952)
Total	**218,144**	249,169

10. PROPERTY AND EQUIPMENT, NET

	2012			2011		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	**2,818,314**	**2,044,896**	**4,863,210**	2,586,149	1,785,138	4,371,287
Foreign currency translation adjustment	**8,993**	**18,314**	**27,307**	(36,929)	(58,077)	(95,006)
Additions	**136,414**	**519,538**	**655,952**	288,983	358,208	647,191
Disposals and retirement	**(12,020)**	**(180,515)**	**(192,535)**	(19,889)	(40,373)	(60,262)
At 31 December	**2,951,701**	**2,402,233**	**5,353,934**	2,818,314	2,044,896	4,863,210
Accumulated depreciation:						
At beginning of the year	**1,188,441**	**1,357,416**	**2,545,857**	1,112,272	1,162,010	2,274,282
Foreign currency translation adjustment	**3,045**	**11,686**	**14,731**	(11,707)	(29,662)	(41,369)
Charge for the year	**130,594**	**283,618**	**414,212**	99,641	252,736	352,377
Disposals and retirement	**(5,485)**	**(165,277)**	**(170,762)**	(11,765)	(27,668)	(39,433)
At 31 December	**1,316,595**	**1,487,443**	**2,804,038**	1,188,441	1,357,416	2,545,857
Net book value:						
As at 31 December	**1,635,106**	**914,790**	**2,549,896**	1,629,873	687,480	2,317,353

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11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	2012		2011	
	Goodwill SR '000	**Other intangibles SR '000**	Goodwill SR '000	Other intangibles SR '000
Cost:				
At beginning of the year	**1,834,120**	**1,248,994**	2,154,262	1,499,879
Disposal (note 1.2(d))	**(346,360)**	**(83,090)**	-	-
Foreign currency translation adjustment	**92,094**	**72,172**	(320,142)	(250,885)
At 31 December	**1,579,854**	**1,238,076**	1,834,120	1,248,994
Amortisation, impairment and foreign currency translation:				
At beginning of the year	**1,229,485**	**622,686**	1,419,518	577,203
Amortisation charge for the year	-	**189,337**	-	197,880
Impairment loss release (note 1.2(d))	**(346,360)**	**(52,668)**	-	-
Disposal	-	**(30,422)**	-	-
Foreign currency translation adjustment	**54,667**	**(20,893)**	(190,033)	(152,397)
At 31 December	**937,792**	**708,040**	1,229,485	622,686
Net book value:				
At 31 December	**642,062**	**530,036**	604,635	626,308

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out an impairment test in respect of the goodwill arising on the acquisition of Türkiye Finans Katılım Bankası A.Ş. (TFK). The recoverable amount of TFK has been determined based on the higher of value in use or fair value less cost to sell. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business.

An average discount rate of 14% (2011: 14%) was used to discount future cash flows.

A real long term growth rate of 3% (2011: 4%) was used in the terminal value calculation which is in accordance with the latest "The Organisation for Economic Co-operation and Development" (OECD) estimates.

Using the above rates, the recoverable amount based on value in use as at 30 November 2012 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2012 in respect of TFK.

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12. OTHER ASSETS

	2012 SR '000	2011 SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	**41,886**	7,523
- investments	**821,762**	780,710
- loans and advances	**670,798**	503,786
- derivatives	**89,041**	71,820
Total accrued special commission income receivable	**1,623,487**	1,363,839
Prepayments and accounts receivable	**299,606**	385,554
Margin deposits against derivatives and repos	**284,631**	641,068
Positive fair value of derivatives, net (note 13)	**389,634**	465,956
Others	**1,342,411**	1,663,526
Total	**3,939,769**	4,519,943

13. DERIVATIVES

In the ordinary course of business, the Group utilizes 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.

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13. DERIVATIVES (continued)

(e) Structured Derivative products

Structured derivative products provide financial solutions to the customers of the Bank 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. All structured derivative transactions are entered by the Bank on back-to-back basis with various counterparties and the Bank does not keep any open position.

(13.1) 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.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 31 - credit risk, note 32 - market risk and note 33 - liquidity 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.

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13. DERIVATIVES (continued)

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 year end, 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.

				(SR '000) Notional amounts by term to maturity				
2012	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	**137,164**	**(132,817)**	**7,073,932**	**6,500**	**543,096**	**5,765,169**	**759,166**	**6,427,670**
Special commission rate options and futures	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	**68,578**	**(55,817)**	**53,984,869**	**32,598,844**	**21,386,025**	-	-	**54,063,141**
Options	**32,552**	**(32,551)**	**2,781,723**	**1,128,923**	**1,193,648**	**459,152**	-	**4,164,488**
Structured derivatives	**50,016**	**(50,014)**	**22,156,663**	**4,641,936**	**11,716,532**	**5,798,196**	-	**46,201,354**
Held as fair value hedges:								
Special commission rate swaps	-	**(212,618)**	**843,750**	-	-	**93,750**	**750,000**	**1,092,969**
Held as cash flow hedges:								
Special commission rate swaps	**101,324**	**(9,965)**	**8,024,543**	-	**69,000**	**7,178,364**	**777,179**	**6,391,450**
Total fair value, net (note 12 & 16)	**389,634**	**(493,782)**	**94,865,480**	**38,376,203**	**34,908,301**	**19,294,631**	**2,286,345**	

				(SR '000) Notional amounts by term to maturity				
2011	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	182,267	(177,291)	5,424,126	-	308,075	4,374,530	741,521	8,167,679
Special commission rate options and futures	995	(995)	332,432	-	332,432	-	-	1,049,144
Forward foreign exchange contracts	135,939	(81,879)	52,094,215	23,523,507	28,476,708	94,000	-	58,687,788
Options	4,169	(5,951)	117,599	57,105	4,702	55,792	-	8,876,844
Structured derivatives	69,422	(69,657)	20,530,078	1,316,663	13,951,379	5,262,036	-	39,750,934
Held as fair value hedges:								
Special commission rate swaps	-	(430,189)	1,833,069	-	-	93,750	1,739,319	1,856,860
Held as cash flow hedges:								
Special commission rate swaps	73,164	(16,279)	4,830,250	-	240,000	4,590,250	-	2,850,521
Total fair value, net (note 12 & 16)	465,956	(782,241)	85,161,769	24,897,275	43,313,296	14,470,358	2,480,840	

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13. DERIVATIVES (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

2012				(SR '000)		
Description of hedged items	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed rate instruments	**980,140**	**843,750**	Fair value	Special commission rate swap	**-**	**(212,618)**
Fixed rate and floating rate instruments	**8,150,980**	**8,024,543**	Cash flow	Special commission rate swap	**101,324**	**(9,965)**

2011				(SR '000)		
Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed rate instruments	2,272,704	1,833,069	Fair value	Special commission rate swap	-	(430,189)
Fixed rate and floating rate instruments	4,855,734	4,830,250	Cash flow	Special commission rate swap	73,164	(16,279)

The losses on the hedging instruments for fair value hedge are SR 217 million (2011: SR 240 million). The gains on the hedged items attributable to the hedged risk are SR 217 million (2011: SR 240 million). Thus, the net fair value is SR Nil (2011: SR Nil).

Approximately 48% (2011: 27%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 52% (2011: 73%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

		SR' 000		
2012	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**214,036**	**398,802**	**95,025**	**8,251**
Cash outflows (liabilities)	**(173,868)**	**(331,185)**	**(102,219)**	**(11,892)**
Net cash inflows	**40,168**	**67,617**	**(7,194)**	**(3,641)**

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13. DERIVATIVES (continued)

Cash flows hedges (continued)

The net gain on cash flow hedges reclassified to the income statement during the year was as follows:

	2012 SR '000	2011 SR '000
Special commission income	**179,339**	108,607
Special commission expense	**(133,450)**	(55,512)
Net gain on cash flow hedges reclassified to the statement of income	**45,889**	53,095

Reconciliation of movements in the other reserve of cash flows hedges:

	2012 SR '000	2011 SR '000
Balance at beginning of the year	**56,885**	29,419
Gains from changes in fair value recognised directly in equity, net (effective portion)	**80,363**	80,561
(Gains) removed from equity and transferred to consolidated statement of income	**(45,889)**	(53,095)
Balance at end of the year	**91,359**	56,885

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14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012 SR '000	2011 SR '000
Current accounts	**3,928,846**	2,210,445
Money market deposits	**14,085,533**	5,573,067
Repos (note 6.3)	**7,559,797**	12,156,154
Total	**25,574,176**	19,939,666

15. CUSTOMERS' DEPOSITS

	2012 SR '000	2011 SR '000
Current accounts	**190,156,460**	168,565,006
Savings	**145,998**	148,876
Time	**70,533,589**	60,426,636
Others	**12,694,043**	10,317,040
Total	**273,530,090**	239,457,558

Other customers' deposits include SR 3,963 million (2011: SR 3,046 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	2012 SR '000	2011 SR '000
Current accounts	**11,879,096**	11,665,785
Savings	**883**	1,786
Time	**33,928,515**	22,937,166
Others	**1,185,084**	878,976
Total	**46,993,578**	35,483,713

16. OTHER LIABILITIES

	2012 SR '000	2011 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	**38,306**	21,284
- customers' deposits	**187,351**	227,017
- derivatives	**97,769**	68,515
Total accrued special commission expense payable	**323,426**	316,816
Negative fair value of derivatives (note 13)	**493,782**	782,241
Zakat (NCB and NCBC)	**478,753**	453,839
Staff-related payables	**1,476,180**	1,402,904
Accrued expenses and accounts payable	**955,947**	1,135,935
Provisions for indirect facilities (note 7.3)	**422,050**	222,195
Others	**2,661,584**	1,901,753
Total	**6,811,722**	6,215,683

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17. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank excluding treasury shares (see note 41) consists of 1,495,975,148 shares of SR 10 each (2011: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders.

18. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

19. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity. These reserves are not available for distribution.

20. COMMITMENTS AND CONTINGENCIES

(20.1) Legal proceeding

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

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

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

Oral arguments were held before a court of appeals panel in New York on 4 December 2012. The Bank is now awaiting the court’s ruling.

(20.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2012 in respect of building and equipment purchases are not material to the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. COMMITMENTS AND CONTINGENCIES (continued)

(20.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
2012	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letter of credit	**15,771,031**	**3,884,382**	**1,688,471**	**13,224**	**21,357,108**
Guarantees	**13,079,479**	**17,219,246**	**15,089,850**	**5,248,855**	**50,637,430**
Acceptances	**2,567,054**	**877,185**	**41,228**	**4,880**	**3,490,347**
Irrevocable commitments to extend credit	**720,087**	**1,980,327**	**7,347,514**	**-**	**10,047,928**
Total	**32,137,651**	**23,961,140**	**24,167,063**	**5,266,959**	**85,532,813**

			(SR '000)		
2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letter of credit	12,833,440	5,045,415	543,891	531,884	18,954,630
Guarantees	12,595,316	16,772,096	17,828,629	665,252	47,861,293
Acceptances	2,219,250	957,547	76,508	8,315	3,261,620
Irrevocable commitments to extend credit	-	2,557,714	5,717,098	825,000	9,099,812
Total	27,648,006	25,332,772	24,166,126	2,030,451	79,177,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

20. COMMITMENTS AND CONTINGENCIES (continued)

(b) The analysis of commitments and contingencies by counterparty is as follows:

	2012 **SR '000**	2011 SR '000
Government and quasi Government	**5,081,506**	3,282,209
Corporate and establishment	**61,458,243**	54,623,665
Banks and other financial institutions	**18,134,990**	20,474,051
Others	**858,074**	797,430
Total	**85,532,813**	79,177,355

(20.4) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	2012 **SR '000**	2011 SR '000
Less than 1 year	**185,885**	189,846
1 to 5 years	**641,617**	571,969
Over 5 years	**769,613**	547,684
Total	**1,597,115**	1,309,499

21. NET SPECIAL COMMISSION INCOME

	2012 **SR '000**	2011 SR '000
Special commission income:		
Investments - available for sale	**647,383**	897,565
Investments - held to maturity	**57,201**	63,197
Other investments held at amortised cost	**2,057,503**	1,917,820
Sub total - investments	**2,762,087**	2,878,582
Due from banks and other financial institutions	**109,241**	65,108
Loans and advances	**8,258,953**	7,241,413
Total	**11,130,281**	10,185,103
Special commission expense:		
Due to banks and other financial institutions	**205,408**	118,613
Customers' deposits	**1,931,693**	1,485,064
Total	**2,137,101**	1,603,677
Net special commission income	**8,993,180**	8,581,426

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22. FEE INCOME FROM BANKING SERVICES, NET

	2012 SR '000	2011 SR '000
Fee income:		
Shares brokerage	**516,883**	310,033
Investment management services	**256,020**	245,694
Finance and lending	**1,278,387**	1,068,822
Credit card	**233,396**	240,956
Others	**1,239,989**	1,079,387
Total	**3,524,675**	2,944,892
Fee expenses:		
Shares brokerage	**90,096**	50,294
Investment management services	**10,156**	11,966
Credit card	**84,028**	88,630
Others	**337,589**	311,866
Total	**521,869**	462,756
Fees from banking services, net	**3,002,806**	2,482,136

Other fee income includes fees from trade finance and other miscellaneous banking activities.

23. TRADING INCOME, NET

	2012 SR '000	2011 SR '000
Foreign exchange	**40,715**	95,769
Mutual funds	**8,566**	11,767
Derivatives	**31,595**	39,933
Total	**80,876**	147,469

24. GAINS ON NON-TRADING INVESTMENTS, NET

	2012 SR '000	2011 SR '000
Gains on available for sale investments, net	**487,571**	246,231
Gains on other investments held at amortised cost, net	**114,185**	78,709
Total	**601,756**	324,940

25. INCOME (LOSS) FROM FVIS INVESTMENTS, NET

	2012 SR '000	2011 SR '000
Revaluation gain/(loss) on investments held as FVIS	**115,571**	(86,704)
Total income (loss)	**115,571**	(86,704)

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26. OTHER NON-OPERATING (EXPENSES), NET

	2012	2011
	SR '000	SR '000
Income tax of foreign operations	**(150,075)**	(139,443)
Bank's share in associates' (losses) (note 8)	**(5,944)**	(12,658)
Gain on disposal of property and equipment	**3,563**	13,749
Net other (expenses)	**(45,905)**	(40,483)
Total	**(198,361)**	(178,835)

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2012 and 2011 is calculated by dividing the net income attributable to equity holders of the Bank for the year by the weighted average number of shares outstanding during the year (see note 17).

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

28. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended a dividend, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	2012	2011	**2012**	2011
Interim dividend paid	**1,196,780**	1,196,780	**0.80**	0.80
Proposed final dividend	**1,495,975**	1,495,975	**1.00**	1.00
Total net dividend	**2,692,755**	2,692,755	**1.80**	1.80
Zakat attributable to the Bank	**451,650**	434,134		
Total gross dividend	**3,144,405**	3,126,889		

The zakat assessments had been finalized with the Department of Zakat and Income Tax (DZIT) for all the years up to 2007. The Bank has submitted zakat returns for the years 2008 to 2011 and obtained limited zakat certificates for these years which are under the process of final assessment by DZIT.

29. CASH AND CASH EQUIVALENTS

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

	2012	2011
	SR '000	SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**25,747,923**	10,905,288
Due from banks and other financial institutions with original maturity of three months or less (note 5)	**12,340,282**	9,810,240
Total	**38,088,205**	20,715,528

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30. OPERATING SEGMENTS

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

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

Consumer - Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals, small sized businesses and private banking customers.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to medium and large establishments and companies.

Treasury - Provides a full range of treasury products and services, including money market and foreign exchange, to the Bank’s clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market - Provides wealth management, assets management, investment banking and shares brokerage services (local, regional and international).

International - Comprises banking services provided outside Saudi Arabia including overseas subsidiaries and international banking services.

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

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

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30. OPERATING SEGMENTS (continued)

(30.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

	(SR '000)					
2012	**Consumer**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**61,736,747**	**89,335,085**	**150,676,055**	**1,203,616**	**42,368,630**	**345,320,133**
Total liabilities	**136,217,592**	**115,708,433**	**20,626,285**	**251,811**	**33,111,867**	**305,915,988**
Fee income from banking services, net	**867,213**	**711,985**	**-**	**757,422**	**666,186**	**3,002,806**
Operating income	**5,138,095**	**2,182,826**	**3,233,126**	**772,377**	**2,276,718**	**13,603,142**
Operating expenses of which:	**2,896,016**	**1,553,808**	**327,486**	**416,035**	**1,540,181**	**6,733,526**
- Depreciation of property and equipment	**243,661**	**50,453**	**36,230**	**16,646**	**67,222**	**414,212**
- Impairment charge for credit losses, net	**238,023**	**879,060**	**-**	**-**	**353,025**	**1,470,108**
- Impairment charge on investments, net	**-**	**-**	**-**	**-**	**-**	**-**
Net income (Bank and non-controlling interests)	**2,266,575**	**584,851**	**2,842,362**	**344,546**	**574,992**	**6,613,326**

	(SR '000)					
2011	Consumer	Corporate	Treasury	Capital Market	International	Total
Total assets	51,965,703	77,884,222	138,977,993	1,246,081	31,124,162	301,198,161
Total liabilities	130,459,774	91,220,475	18,022,999	261,540	25,648,119	265,612,907
Fee income from banking services, net	830,496	557,841	-	498,669	595,130	2,482,136
Operating income	4,756,143	2,010,027	3,001,865	520,868	1,844,711	12,133,614
Operating expenses of which:	2,747,646	973,875	332,078	406,405	1,334,800	5,794,804
- Depreciation of property and equipment	190,771	41,298	32,170	18,874	69,264	352,377
- Impairment charge for credit losses, net	412,237	399,998	-	-	221,082	1,033,317
- Impairment charge on investments, net	-	-	2,534	19,466	-	22,000
Net income (Bank and non-controlling interests)	2,022,090	981,723	2,606,760	131,860	363,686	6,106,119

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30. OPERATING SEGMENTS (continued)

(30.2) The Group's credit exposure, by business segments, is as follows:

			(SR '000)			
2012	**Consumer**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**47,993,159**	**84,355,024**	**121,492,098**	**87,533**	**38,730,795**	**292,658,609**
Commitments and contingencies (credit equivalent)	**269,478**	**27,270,628**	**-**	**-**	**14,215,029**	**41,755,135**
Derivatives (credit equivalent)	**-**	**-**	**816,690**	**188**	**61,938**	**878,816**

			(SR '000)			
2011	Consumer	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	38,584,574	74,035,485	122,937,828	71,405	27,238,883	262,868,175
Commitments and contingencies (credit equivalent)	1,222,392	23,262,946	-	-	16,642,068	41,127,406
Derivatives (credit equivalent)	-	-	767,856	1,232	63,198	832,286

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

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31. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products and loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the loans and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in notes (13) and for commitments and contingencies in note (20). The information on the Bank's total maximum credit exposure is given in note (31.1).

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Bank's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 7.4). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values.The Group holds real estate collateral against transfer of title deed (*ifrag*) as a collateral but due to the difficulty in siezing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Collateral generally is not held against due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 and 2011.

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31. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.14) for accounting policy of impairment of financial assets].

(31.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2012 **SR '000**	2011 SR '000
Assets		
Due from banks and other financial institutions (note 5)	**16,402,282**	11,561,490
Investments (note 6.6)	**110,479,483**	113,546,326
Loans and advances, net (note 7.4)	**163,479,092**	135,289,496
Other assets - margin deposits against derivatives and repos, and accrued special commission income receivable (note 12)	**1,908,118**	2,004,907
Total assets	**292,268,975**	262,402,219
Contingent liabilities and commitments, net (notes 15,16 & 20.3)	**81,148,105**	75,908,739
Derivatives - positive fair value, net (note 13)	**389,634**	465,956
Total maximum exposure	**373,806,714**	338,776,914

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32. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Group Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(32.1) MARKET RISK-TRADING BOOK

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

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31 DECEMBER 2012

32. MARKET RISK (continued)

(32.1) MARKET RISK-TRADING BOOK (continued)

The table below shows the VaR related information for the year ended 31 December 2012 and 2011 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2012	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 31 December 2012	**3**	**13**	**16**	**125,125**
Average VaR for 2012	**14**	**16**	**30**	**221,424**

	(SR '000) Held for Trading			
2011	Foreign exchange risk	Special commission risk	Overall risk	FVIS
VaR as at 31 December 2011	5	16	21	260,934
Average VaR for 2011	1,137	45	1,182	274,715

(32.2) MARKET RISK - BANKING BOOK

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(32.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group’s consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2012, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2012 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

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32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

2012	**Increase / Decrease in basis points**	**Sensitivity of special commission income**	**SR '000 Sensitivity of equity (other reserves) within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Currency							
SR	**± 10**	± **32,980**	± **-**	± **69**	± **49,411**	± **71,113**	± **120,593**
USD	**± 10**	± **32,180**	± **205**	± **70**	± **11,072**	± **49,902**	± **61,249**

2011	Increase / Decrease in basis points	Sensitivity of special commission income	SR '000 Sensitivity of equity (other reserves) within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10	± 38,929	-	± 125	± 764	± 16,347	± 17,236
USD	± 10	± 18,592	-	± 723	± 28,518	± 85,683	± 114,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

	SR '000					
2012	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	**22,016,849**	-	-	-	**18,281,579**	**40,298,428**
Due from banks and other financial institutions	**13,117,788**	**104,930**	-	-	**3,179,564**	**16,402,282**
Investments, net	**24,495,945**	**15,983,862**	**36,981,779**	**33,017,895**	**5,948,312**	**116,427,793**
Loans and advances, net	**42,744,259**	**63,462,521**	**51,493,434**	**5,404,217**	**374,661**	**163,479,092**
Investment in associates, net	-	-	-	-	**832,631**	**832,631**
Other real estate, net	-	-	-	-	**218,144**	**218,144**
Property and equipment, net	-	-	-	-	**2,549,896**	**2,549,896**
Goodwill and other intangible assets, net	-	-	-	-	**1,172,098**	**1,172,098**
Other assets	-	-	-	-	**3,939,769**	**3,939,769**
Total assets	**102,374,841**	**79,551,313**	**88,475,213**	**38,422,112**	**36,496,654**	**345,320,133**
Liabilities and equity						
Due to banks and other financial institutions	**14,571,829**	**6,349,658**	**1,122,101**	-	**3,530,588**	**25,574,176**
Customers' deposits	**56,309,588**	**15,250,402**	**427,623**	-	**201,542,477**	**273,530,090**
Other liabilities	-	-	-	-	**6,811,722**	**6,811,722**
Equity attributable to equity holders of the Bank	-	-	-	-	**37,703,631**	**37,703,631**
Non-controlling interest	-	-	-	-	**1,700,514**	**1,700,514**
Total liabilities and equity	**70,881,417**	**21,600,060**	**1,549,724**		**251,288,932**	**345,320,133**
On-balance sheet gap	**31,493,424**	**57,951,253**	**86,925,489**	**38,422,112**	**(214,792,278)**	
Off-balance sheet gap	**(670,518)**	**(518,954)**	**4,274,920**	**(3,085,448)**	**-**	
Total special commission rate sensitivity gap	**30,822,906**	**57,432,299**	**91,200,409**	**35,336,664**	**(214,792,278)**	
Cumulative special commission rate sensitivity gap	**30,822,906**	**88,255,205**	**179,455,614**	**214,792,278**	**-**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

SR '000

2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	7,657,947	-	-	-	17,044,077	24,702,024
Due from banks and other financial institutions	9,162,736	1,751,250	-	-	647,504	11,561,490
Investments, net	19,369,722	24,436,667	41,978,635	27,786,077	6,918,067	120,489,168
Loans and advances, net	32,102,152	55,095,523	46,135,515	1,822,205	134,101	135,289,496
Investment in associates, net	-	-	-	-	838,575	838,575
Other real estate, net	-	-	-	-	249,169	249,169
Property and equipment, net	-	-	-	-	2,317,353	2,317,353
Goodwill and other intangible assets, net	-	-	-	-	1,230,943	1,230,943
Other assets	-	-	-	-	4,519,943	4,519,943
Total assets	68,292,557	81,283,440	88,114,150	29,608,282	33,899,732	301,198,161
Liabilities and equity						
Due to banks and other financial institutions	15,418,297	2,376,143	396,904	282,273	1,466,049	19,939,666
Customers' deposits	53,160,479	12,378,654	448,264	-	173,470,161	239,457,558
Other liabilities	-	-	-	-	6,215,683	6,215,683
Equity attributable to equity holders of the Bank	-	-	-	-	34,165,218	34,165,218
Non-controlling interest	-	-	-	-	1,420,036	1,420,036
Total liabilities and equity	68,578,776	14,754,797	845,168	282,273	216,737,147	301,198,161
On-balance sheet gap	(286,219)	66,528,643	87,268,982	29,326,009	(182,837,415)	
Off-balance sheet gap	(643,160)	(699,640)	1,036,550	306,250	-	
Total special commission rate sensitivity gap	(929,379)	65,829,003	88,305,532	29,632,259	(182,837,415)	
Cumulative special commission rate sensitivity gap	(929,379)	64,899,624	153,205,156	182,837,415	-	

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

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31 DECEMBER 2012

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

At the year end, the Group had the following significant net exposures denominated in foreign currencies:

Currency	**2012 SR '000 Long (short)**	2011 SR '000 Long (short)
US Dollar	**74,009**	2,148,100
TRY	**4,783,630**	4,073,197

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2012 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2012 SR '000			2011 SR '000		
Currency	**Increase/ Decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ Decrease in currency rate in %	Effect on profit	Effect on equity
US Dollar	-	-	-	-	-	-
TRY	**± 10%**	**± 39,254**	**± 478,363**	± 10%	± 32,779	± 407,320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted in Tadawul and held as available-for-sale at 31 December 2012 and 2011, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	2012 SR '000		2011 SR '000	
Market index - (Tadawul)	**Increase / Decrease in market prices %**	**Effect on equity (other reserves)**	Increase / Decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	**± 10%**	± 209,614	± 10%	± 211,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2012	2011
	%	%
As at 31 December	**38%**	40%
Average during the year	**37%**	45%

(33.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (33.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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31 DECEMBER 2012

33. LIQUIDITY RISK (continued)

(33.1) Analysis of financial liabilities by remaining contractual maturities (continued)

			SR '000			
Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2012						
Due to banks and other financial institutions	**3,928,847**	**15,296,829**	**5,643,153**	**980,464**	**-**	**25,849,293**
Customers' deposits	**202,298,456**	**55,821,556**	**15,099,467**	**443,914**	**-**	**273,663,393**
Derivative financial instruments (gross contractual amounts payable)	**-**	**30,853,185**	**24,186,026**	**2,087,526**	**-**	**57,126,737**
Total undiscounted financial liabilities	**206,227,303**	**101,971,570**	**44,928,646**	**3,511,904**	**-**	**356,639,423**

			SR '000			
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2011						
Due to banks and other financial institutions	2,705,985	15,636,513	1,005,761	636,192	87,117	20,071,568
Customers' deposits	178,524,868	47,992,424	12,599,423	462,854	-	239,579,569
Derivative financial instruments (gross contractual amounts payable)	-	29,834,693	34,214,631	6,223,512	25,062	70,297,898
Total undiscounted financial liabilities	181,230,853	93,463,630	47,819,815	7,322,558	112,179	329,949,035

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (20.3(a)).

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33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (33.1) above for the contractual undiscounted financial liabilities.

			(SR '000)		
2012	**0-30 days**	**1 to 12 months**	**Over 1 year**	**No-fixed maturity**	**Total**
Assets					
Cash and balances with SAMA	22,016,939	-	3,730,984	14,550,505	40,298,428
Due from banks and other financial institutions	1,760,380	797,904	13,843,998	-	16,402,282
Investments, net	15,270,949	21,365,236	73,215,312	6,576,296	116,427,793
Loans and advances, net	7,476,101	93,235,684	62,767,307	-	163,479,092
Investment in associates, net	-	-	-	832,631	832,631
Other real estate, net	-	-	-	218,144	218,144
Property and equipment, net	-	-	-	2,549,896	2,549,896
Goodwill and other intangible assets, net	11,259	123,849	394,928	642,062	1,172,098
Other assets	-	-	-	3,939,769	3,939,769
Total assets	46,535,628	115,522,673	153,952,529	29,309,303	345,320,133
Liabilities and equity					
Due to banks and other financial institutions	12,830,194	489,908	8,326,918	3,927,156	25,574,176
Customers' deposits	17,342,928	8,416,813	58,251,636	189,518,713	273,530,090
Other liabilities	-	-	-	6,811,722	6,811,722
Total liabilities	30,173,122	8,906,721	66,578,554	200,257,591	305,915,988
Total equity	-	-	-	39,404,145	39,404,145
Total liabilities and equity	30,173,122	8,906,721	66,578,554	239,661,736	345,320,133

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33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(SR '000)

2011	0-30 days	1 to 12 months	Over 1 year	No-fixed maturity	Total
Assets					
Cash and balances with SAMA	7,657,980	-	3,247,308	13,796,736	24,702,024
Due from banks and other financial institutions	1,290,732	573,603	9,697,155	-	11,561,490
Investments, net	16,178,859	22,110,226	76,329,464	5,870,619	120,489,168
Loans and advances, net	10,137,266	67,436,088	57,716,142	-	135,289,496
Investment in associates, net	-	-	-	838,575	838,575
Other real estate, net	-	-	-	249,169	249,169
Property and equipment, net	-	-	-	2,317,353	2,317,353
Goodwill and other intangible assets, net	10,603	116,629	499,076	604,635	1,230,943
Other assets	-	-	-	4,519,943	4,519,943
Total assets	35,275,440	90,236,546	147,489,145	28,197,030	301,198,161
Liabilities and equity					
Due to banks and other financial institutions	13,028,163	261,331	4,441,256	2,208,916	19,939,666
Customers' deposits	15,059,235	7,666,339	52,951,197	163,780,787	239,457,558
Other liabilities	-	-	-	6,215,683	6,215,683
Total liabilities	28,087,398	7,927,670	57,392,453	172,205,386	265,612,907
Total equity	-	-	-	35,585,254	35,585,254
Total liabilities and equity	28,087,398	7,927,670	57,392,453	207,790,640	301,198,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(34.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

			(SR '000)			
2012	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Assets						
Cash and balances with SAMA	**39,534,597**	**34,802**	**445,712**	**213,442**	**69,875**	**40,298,428**
Due from banks and other financial institutions	**5,605,544**	**3,692,454**	**681,740**	**5,965,580**	**456,964**	**16,402,282**
Investments, net	**49,832,386**	**18,902,008**	**4,576,030**	**1,759,171**	**41,358,198**	**116,427,793**
Loans and advances, net	**132,591,661**	**3,055**	**1,901,843**	**26,994,066**	**1,988,467**	**163,479,092**
Investment in associates, net	**832,631**	**-**	**-**	**-**	**-**	**832,631**
Goodwill and other intangible assets, net	**-**	**-**	**-**	**1,172,098**	**-**	**1,172,098**
Total	**228,396,819**	**22,632,319**	**7,605,325**	**36,104,357**	**43,873,504**	**338,612,324**
Liabilities						
Due to banks and other financial institutions	**437,997**	**9,447,936**	**1,533,505**	**4,111,092**	**10,043,646**	**25,574,176**
Customers' deposits	**249,176,696**	**362,077**	**27,132**	**23,874,704**	**89,481**	**273,530,090**
Total	**249,614,693**	**9,810,013**	**1,560,637**	**27,985,796**	**10,133,127**	**299,104,266**
Commitments and contingencies (note 20.3)	**51,240,865**	**1,955,103**	**1,246,665**	**16,222,195**	**14,867,985**	**85,532,813**
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	**27,540,105**	**1,065,050**	**520,760**	**7,947,655**	**4,681,565**	**41,755,135**
Derivatives	**297,010**	**149,377**	**370,435**	**61,938**	**56**	**878,816**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

2011	(SR '000)					
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	24,107,818	2,720	134,938	152,118	304,430	24,702,024
Due from banks and other financial institutions	3,383,098	3,404,908	1,021,243	3,198,371	553,870	11,561,490
Investments, net	58,020,596	17,202,791	13,308,844	1,194,905	30,762,032	120,489,168
Loans and advances, net	112,396,198	130,944	896,033	20,225,997	1,640,324	135,289,496
Investment in associates, net	838,575	-	-	-	-	838,575
Goodwill and other intangible assets, net	-	-	-	1,230,943	-	1,230,943
Total	198,746,285	20,741,363	15,361,058	26,002,334	33,260,656	294,111,696
Liabilities						
Due to banks and other financial institutions	193,561	3,534,141	1,559,734	2,234,127	12,418,103	19,939,666
Customers' deposits	219,674,421	488,086	24,456	19,197,485	73,110	239,457,558
Total	219,867,982	4,022,227	1,584,190	21,431,612	12,491,213	259,397,224
Commitments and contingencies (note 20.3)	47,031,225	1,400,916	1,641,469	13,775,039	15,328,706	79,177,355
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	24,348,492	731,219	856,777	7,189,985	8,000,933	41,127,406
Derivatives	294,535	175,482	298,678	63,200	391	832,286

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(34.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

	(SR '000)					
2012	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Non performing loans and advances	**4,160,795**	**37,500**	**-**	**751,063**	**-**	**4,949,358**
Less: specific provision	**(3,979,730)**	**(37,500)**	**-**	**(542,930)**	**-**	**(4,560,160)**
Net	**181,065**	**-**	**-**	**208,133**	**-**	**389,198**
2011						
Non performing loans and advances	3,749,143	37,500	-	484,626	-	4,271,269
Less: specific provision	(3,598,916)	(37,500)	-	(335,321)	-	(3,971,737)
Net	150,227	-	-	149,305	-	299,532

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1: quoted prices in active markets for the same instrument.

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

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

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

	(SR '000)			
2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	**-**	**389,634**	**-**	**389,634**
Financial assets designated as FVIS	**-**	**1,865,152**	**217,088**	**2,082,240**
Financial assets available for sale	**21,689,599**	**3,978,002**	**1,389,045**	**27,056,646**
Held for trading	**615,849**	**-**	**-**	**615,849**
Total	**22,305,448**	**6,232,788**	**1,606,133**	**30,144,369**
Financial liabilites				
Derivative financial instruments	**-**	**493,782**	**-**	**493,782**
Total	**-**	**493,782**	**-**	**493,782**

	(SR '000)			
2011	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	465,956	-	465,956
Financial assets designated at FVIS	-	2,510,030	599,614	3,109,644
Financial investments available for sale	28,387,823	2,451,470	1,427,455	32,266,748
Held for trading	508,510	-	-	508,510
Total	28,896,333	5,427,456	2,027,069	36,350,858
Financial liabilites				
Derivative financial instruments	-	782,241	-	782,241
Total	-	782,241	-	782,241

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

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

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

Movement of level 3 is as follows:

	2012 SR '000	2011 SR '000
Balance at beginning of the year	**2,027,069**	2,796,294
Total gains/(losses) in consolidated income statement and comprehensive income	**4,426**	9,989
Purchases	**224,513**	242,340
(Sales)	**(568,059)**	(729,130)
(Settlements)	**(7,014)**	(3,036)
Transfer (from) level 3	**(74,802)**	(289,388)
Balance at end of the year	**1,606,133**	2,027,069

37. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(37.1) The balances as at 31 December included in the financial statements are as follows:

	2012 SR '000	2011 SR '000
Group's Board of Directors and senior executives:		
Loans and advances	**163,858**	384,407
Customers' deposits	**28,799**	39,687
Commitment and contingencies	**7,849**	1,563
Investments	**8,002**	28,289
Other liabilities - end of service benefits	**25,357**	29,124
Major shareholders:		
Customers' deposits	**14,967,845**	13,712,073
Investments	**215,743**	222,867
Bank's mutual funds:		
Investments	**541,558**	508,505
Customers' deposits	**206,759**	431,340

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

37. RELATED PARTY TRANSACTIONS (continued)

(37.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2012 SR '000	2011 SR '000
Special commission income	**7,529**	7,600
Special commission expense	**150,301**	90,763
Fees and commission income and expense, net	**421**	348

Bank's Board of Directors include the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee); their remunerations, allowances and expenses are disclosed in the Board of Directors' report. For Bank's senior executives compensation, refer to note 38.

38. GROUP's STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

	2012			2011		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR '000**	**Variable compensation (on cash basis) SR '000**	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000
Senior executives	**14**	**30,939**	**41,988**	15	29,871	44,181
Employees engaged in risk taking activities	**221**	**81,940**	**19,381**	208	77,807	15,130
Employees engaged in control functions	**284**	**91,107**	**18,242**	251	81,198	17,087
Other employees	**6,231**	**986,698**	**204,535**	5,437	884,185	201,608
Subsidiaries	**3,929**	**523,582**	**83,508**	3,720	496,023	102,463
Group total	**10,679**	**1,714,266**	**367,654**	9,631	1,569,084	380,469

All forms of payment for fixed and variable compensation are in cash, except for part of NCB Capital's variable compensation amounting to SR Nil (2011: SR 20.1 million), which is settled in equities. The two basic salaries of SR 93.4 million paid in 2011 to Saudi staff pursuant to The Royal Award are excluded from the above compensation.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2012 is SR 409.3 million (2011: SR 375.8 million) which will be paid to employees during quarter 1 of 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

39. CAPITAL ADEQUACY

(39.1) Capital adequacy ratio

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

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

	Eligible capital		**Capital Adequacy Ratio (Pillar 1)**	
	2012	2011	**2012**	2011
	SR '000	SR '000	**%**	%
Core capital (Tier 1)	**38,199,378**	34,318,125	**16.5**	17.2
Supplementary capital (Tier 2)	**2,462,301**	2,008,707	**-**	-
Core and supplementary capital (Tier 1 and Tier 2)	**40,661,679**	36,326,832	**17.5**	18.2

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

The Group has implemented Basel II effective 1 January 2008 as stipulated by SAMA. The Group uses the Standardized approach of Basel II 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 Division is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel II requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

	Risk weighted assets	
	2012	2011
	SR '000	SR '000
Credit risk	**203,732,065**	169,732,836
Operational risk	**22,208,627**	22,107,907
Market risk	**6,157,369**	7,809,547
Total Pillar-1 - risk weighted assets	**232,098,061**	199,650,290

(39.2) BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Group's website **www.alahli.com** as required by the Saudi Arabian Monetary Agency (SAMA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

40. INVESTMENT SERVICES

The Bank offers investment management services to its customers through NCB capital. Assets under management outstanding at 31 December 2012 amounted to SR 41,019 million (2011: SR 33,963 million) (note 3.24).

41. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

42. COMPARATIVE FIGURES

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

43. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 July 2012	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	The amendments require that an entity present separately, the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss.
1 Jan 2013	IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7	These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.
1 Jan 2013	IFRS 10 – Consolidated Financial Statements	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: • it is exposed or has rights to variable returns from its involvement with that investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. Control is re-assessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

43. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 Jan 2013	IFRS 11 – Joint Arrangements	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. ‘Control’ in ‘joint control’ refers to the definition of ‘control’ in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to two categories (i.e. Joint Operations and Joint Control). In addition, IAS 28 has also been amended to include the application of the equity method to investments in joint ventures.
1 Jan 2013	IFRS 12 – Disclosure of Interests in Other Entities	IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate: • the nature of, and risks associated with, an entity’s interests in other entities; and • the effects of those interests on the entity’s financial position, financial performance and cash flows.
1 Jan 2013	IFRS - 13 Fair Value Measurement	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs.
1 Jan 2013	IAS 27 Separate Financial Statements (as revised in 2011)	As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
1 Jan 2013	IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

43. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 Jan 2014	IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.
1 Jan 2015	IFRS 9 - Financial Instruments	IFRS 9 for financial assets was first published in November 2009 and was later updated in October 2010 to include financial liabilities. These pronouncements initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015. The first phase of IFRS 9 addressed the classification and measurement of financial instruments (Phase 1). The Board's work on the other phases is ongoing and includes impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 in its entirety. Phase 1 of IFRS 9 applies to all financial instruments within the scope of IAS 39.

Other improvements/amendments, which are effective for annual periods beginning on or after 1 January 2013 are listed below. These improvements/amendments will not have an impact on the consolidated financial statements of the Group.

a) Improvements to IFRS - 2009 to 2011 cycle (May 2012).

b) IAS 19 – Employee Benefits (amendments).

44. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 29 January 2013 (corresponding to 17 Rabi Al-Awal 1434H).

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011 AND AUDITORS' REPORT

Ernst & Young **KPMG Al Fozan & Al Sadhan**

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011 AND 2010

	Note	**2011** **SR '000**	2010 SR '000
ASSETS			
Cash and balances with SAMA	4	**24,702,024**	27,932,539
Due from banks and other financial institutions	5	**11,561,490**	11,846,431
Investments, net	6	**120,489,168**	108,065,249
Loans and advances, net	7	**135,289,496**	125,597,091
Investment in associates, net	8	**838,575**	827,465
Other real estate, net	9	**249,169**	279,665
Property and equipment, net	10	**2,317,353**	2,097,005
Intangible assets, net	11	**626,308**	922,677
Goodwill, net	11	**604,635**	734,744
Other assets	12	**4,519,943**	4,069,126
Total assets		**301,198,161**	282,371,992
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**19,939,666**	14,331,698
Customers' deposits	15	**239,457,558**	229,160,181
Other liabilities	16	**6,215,683**	6,023,420
Total liabilities		**265,612,907**	249,515,299
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	17	**15,000,000**	15,000,000
Treasury shares	17&42	**(177,093)**	(177,093)
Statutory reserve	18	**12,105,333**	10,655,725
Other reserves (cumulative changes in fair values)	19	**1,918,274**	1,318,720
Retained earnings		**5,226,884**	3,807,791
Proposed dividend	29	**1,495,975**	1,495,975
Foreign currency translation reserve		**(1,404,155)**	(828,860)
Total shareholders' equity attributable to equity holders of the Parent		**34,165,218**	31,272,258
Non-controlling interests		**1,420,036**	1,584,435
Total shareholders' equity		**35,585,254**	32,856,693
Total liabilities and shareholders' equity		**301,198,161**	282,371,992

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	2011 SR '000	2010 SR "000
Special commission income	21	**10,185,103**	9,711,254
Special commission expense	21	**(1,603,677)**	(1,561,452)
Net special commission income		**8,581,426**	8,149,802
Fee income from banking services, net	22	**2,631,332**	2,487,858
Foreign exchange income, net		**474,305**	348,786
(Loss) income from FVIS investments, net	23	**(86,704)**	181,115
Trading income, net	24	**147,469**	151,154
Dividend income	25	**65,626**	65,781
Gains on non-trading investments, net	26	**324,940**	282,760
Operating income		**12,138,394**	11,667,256
Salaries and employee-related expenses		**2,480,154**	2,336,251
Rent and premises-related expenses		**449,452**	401,569
Depreciation of property and equipment	10	**352,377**	335,156
Amortisation of intangible assets	11.1	**197,880**	235,557
Other general and administrative expenses		**1,269,856**	1,163,370
Impairment charge for credit losses, net	7.3	**1,033,317**	1,831,560
Impairment charge on investments, net	6.5	**22,000**	52,883
Impairment loss on goodwill and intangible assets	11	**-**	277,153
Operating expenses		**5,805,036**	6,633,499
Income from operations, net		**6,333,358**	5,033,757
Other (expenses)			
Donations		**(53,856)**	(67,503)
Other non-operating (expenses), net	27	**(173,383)**	(162,850)
Net other (expenses)		**(227,239)**	(230,353)
Net income for the year		**6,106,119**	4,803,404
Net income for the year attributable to:			
Equity holders of the Parent		**6,011,751**	4,723,835
Non-controlling interest		**94,368**	79,569
Net income for the year		**6,106,119**	4,803,404
Basic and diluted earnings per share (expressed in SR per share)	28	**4.02**	3.16

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	2011 SR '000	2010 SR '000
Net income for the year		**6,106,119**	4,803,404
Other comprehensive income (loss):			
Net changes arising during the year:			
Revaluation gains on cash flow hedges, net (effective portion)	13	**80,561**	22,122
Revaluation gains on available for sale investments (AFS), net		**738,805**	1,136,020
Foreign currency translation reserve - (losses)		**(828,323)**	(110,417)
Transfers to consolidated income statement:			
Fair value (gains) on cash flow hedges	13	**(53,095)**	(77,913)
(Gains) on non-trading investments, net (AFS)		**(209,630)**	(228,666)
Impairment charge on investments (AFS)		**22,000**	89,644
Other comprehensive (loss) income for the year		**(249,682)**	830,790
Total comprehensive income for the year		**5,856,437**	5,634,194
Total comprehensive income attributable to:			
Equity holders of the parent		**6,036,010**	5,595,359
Non-controlling interest		**(179,573)**	38,835
Total comprehensive income for the year		**5,856,437**	5,634,194

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

		Attributable to equity holders of the parent										
					Other reserves							
	Note	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets SR' 000	Cash flow hedge SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total SR' 000
2011												
Balance as at 1 January 2011		**15,000,000**	**(177,093)**	**10,655,725**	**1,289,301**	**29,419**	**3,807,791**	**1,495,975**	**(828,860)**	**31,272,258**	**1,584,435**	**32,856,693**
Total comprehensive income/(loss) for the year		-	-	-	**572,088**	**27,466**	**6,011,751**	-	**(575,295)**	**6,036,010**	**(179,573)**	**5,856,437**
Transfer to statutory reserve		-	-	**1,449,159**	-	-	**(1,449,159)**	-	-	-	-	-
Transfer related to Lebanon branch		-	-	**449**	-	-	**(449)**	-	-	-	-	-
Adjustments in non-controlling interest and subsidiaries		-	-	-	-	-	**2,469**	-	-	**2,469**	**16,249**	**18,718**
Proposed final dividend for 2011	29	-	-	-	-	-	**(1,495,975)**	**1,495,975**	-		-	-
Zakat - NCB & NCBC (included in other liabilities)	16	-	-	-	-	-	**(452,764)**	-	-	**(452,764)**	**(1,075)**	**(453,839)**
Dividend paid for 2011 (interim) & 2010 (final)	29	-	-	-	-	-	**(1,196,780)**	**(1,495,975)**	-	**(2,692,755)**	-	**(2,692,755)**
Balance as at 31 December 2011		**15,000,000**	**(177,093)**	**12,105,333**	**1,861,389**	**56,885**	**5,226,884**	**1,495,975**	**(1,404,155)**	**34,165,218**	**1,420,036**	**35,585,254**
2010												
Balance as at 1 January 2010		15,000,000	(177,093)	9,524,343	281,941	85,210	3,061,538	2,243,963	(748,815)	29,271,087	1,589,072	30,860,159
Total comprehensive income/(loss) for the year		-	-	-	1,007,360	(55,791)	4,723,835	-	(80,045)	5,595,359	38,835	5,634,194
Transfer to statutory reserve		-	-	1,251,319	-	-	(1,251,319)	-	-	-	-	-
Transfer related to Lebanon branch		-	-	911	-	-	(911)	-	-	-	-	-
Adjustments in non-controlling interest and subsidiaries		-	-	(120,848)	-	-	128,257	-	-	7,409	(43,106)	(35,697)
Proposed final dividend for 2010	29	-	-	-	-	-	(1,495,975)	1,495,975	-	-	-	-
Zakat - NCB & NCBC (included in other liabilities)	16	-	-	-	-	-	(160,854)	-	-	(160,854)	(366)	(161,220)
Dividend paid for 2010 (interim) & 2009 (final)	29	-	-	-	-	-	(1,196,780)	(2,243,963)	-	(3,440,743)	-	(3,440,743)
Balance as at 31 December 2010		15,000,000	(177,093)	10,655,725	1,289,301	29,419	3,807,791	1,495,975	(828,860)	31,272,258	1,584,435	32,856,693

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	2011 SR' 000	2010 SR'' 000
OPERATING ACTIVITIES			
Net income for the year		**6,106,119**	4,803,404
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) amortization of premium on non-trading investments, net		**(3,188)**	52,294
Amortisation of discount on debt securities issued		**-**	564
(Gains) on non-trading investments, net	26	**(324,940)**	(282,760)
(Gains) on disposal of property and equipment, net	27	**(13,749)**	(9,606)
(Gains) on disposal of other real estate, net	27	**(471)**	(2,275)
Depreciation of property and equipment	10	**352,377**	335,156
Amortisation of intangible assets	11	**197,880**	235,557
Impairment charge for credit losses, net	7.3	**1,033,317**	1,831,560
Bank''s share in associates' losses	27	**12,658**	17,274
Impairment charge on investments, net	6.5	**22,000**	52,883
Impairment loss on goodwill and intangible assets	11	-	277,153
Provision for unrealized revaluation losses of other real estate	27	**6,365**	5,645
		7,388,368	7,316,849
Net (increase)/decrease in operating assets:			
Due from banks and other financial institutions maturing after 90 days		**(1,751,250)**	-
Statutory deposits with SAMA		**(1,643,065)**	(1,662,730)
Held for trading investments		**78,600**	726,966
Held as fair value through income statement (FVIS) investments		**1,338,356**	(191,663)
Loans and advances		**(10,725,722)**	(15,271,011)
Other real estate		**11,884**	3,853
Other assets		**(412,841)**	(1,294,190)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**5,607,968**	(1,243,323)
Customers'' deposits		**10,297,377**	26,577,673
Other liabilities		**(260,565)**	88,388
Net cash from operating activities		**9,929,110**	15,050,812
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		**118,256,283**	71,978,250
Purchase of non-trading / non-FVIS investments		**(131,049,879)**	(81,979,460)
Purchase of property and equipment	10	**(647,191)**	(301,363)
Proceeds from disposal of property and equipment		**34,577**	17,060
Investment in associates		**(23,768)**	-
Net cash (used in) investing activities		**(13,429,978)**	(10,285,513)
FINANCING ACTIVITIES			
Net movement in non-controlling interest		**(2,532)**	(4,637)
Settlement of debt securities issued		**-**	(2,625,000)
Dividends paid for 2011 (interim)		**(1,196,780)**	(1,196,780)
Dividends paid for 2010 (final)		**(1,495,975)**	(2,243,963)
Cash (used in) financing activities		**(2,695,287)**	(6,070,380)
Net decrease in cash and cash equivalents		**(6,196,155)**	(1,305,081)
Foreign currency translation reserve - net movement on cash and cash equivalents		**(713,616)**	(88,220)
Cash and cash equivalents at the beginning of the year		**27,625,299**	29,018,600
Cash and cash equivalents at the end of the year	30	**20,715,528**	27,625,299
Special commission received during the year		**10,101,061**	9,774,565
Special commission paid during the year		**1,573,480**	1,649,848
Supplemental non-cash information			
Net change in fair value and transfer to consolidated statement of income		**599,554**	961,195
Acquisition of available for sale investment (equities)	43	**-**	1,076,566

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

1. GENERAL

(1.1) **Introduction**

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

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and 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 operates through its 288 branches (2010: 284 branches), 7 corporate service centres (2010: 6 centres) and 25 QuickPay remittance centers (2010:13 centers) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain) in addition to the subsidiaries as detailed below. The Group"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
http://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.

(1.2) **Group's subsidiaries**

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

(a) NCB Capital Company

In April 2007, the Bank formed a capital market company, namely, NCB Capital Company, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia. The Bank has 90.71% (2010: 90.42%) direct ownership interest in NCB Capital Company and an indirect ownership of 3.83% (2010: 5.90%) (the indirect ownership is held via an intermediary Trust for future grant to NCB Capital employees).

(b) Türkiye Finans Katılım Bankası A.Ş.

The Bank has 64.68% (2010: 64.68%) direct ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has 72.80% (2010: 74.17%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCB Capital. NCB Capital Company acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate.

(d) The Capital Partnership Group Limited (TCP)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(e) Real Estate Development Company

The Bank formed Real Estate Development Company (the Company) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has 100% ownership (2010: 100%) in the Company. The objectives of the Company primarily include keeping and managing property title deeds in the name of the Bank or others (as collateral); registering such title deeds in its name; purchasing land and constructing buildings on such land for future sale or lease.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS). The Group also prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) and have been rounded off to the nearest thousand Saudi Riyals.

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries, Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate and the Capital Partnership Group in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

Non-controlling interest 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 consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders‟ 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Group reviews its loan portfolios to assess an additional portfolio (collective) provision on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, valuation models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that created the model. To the extent practical, models use only observable market data; however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) Impairment of available for sale equity investments

The Group exercises judgment to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

The Group‟s management has made an assessment of the Group‟s ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group‟s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset‟s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill and equity investments cannot be reversed through the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset‟s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(3.1) Change in accounting policies

The accounting policies adopted are consistent with those used in the Bank's annual consolidated financial statements for the year ended 31 December 2010 except for the adoption of following amendments and revisions to existing standards mentioned below which has had no financial impact on the consolidated financial statements of the Group:

(a) IAS 24 - Related Party Disclosures (revised in 2009):

The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

(b) Amendments to IFRS 7 – Financial Instruments: Disclosures (Transfers of Financial Assets):

These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

(c) Improvements to IFRSs in 2010 – IFRS 7 Financial Instruments: Disclosures:

The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity"s exposure to risks arising from financial instruments. In addition, the IASB amended and removed certain existing disclosure requirements.

(d) Improvements to IFRSs in 2010 – IAS 1 Presentation of Financial Statements:

IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in equity or in the notes.

(e) Improvements to IFRSs in 2010 – IFRIC 13 Customer Loyalty Programmes:

The amendments clarifies that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

(f) Other amendments resulting from the improvements to the IFRSs to the following standards did not have any material financial impact on the accounting policies, financial position and performance of the Group:

- IFRS 3 - Business Combinations
- IFRS 7 - Financial Instruments: Disclosures (related to maximum credit exposure, collateral, and renegotiated loans)
- IAS 27 - Consolidated and Separate Financial Statements
- IAS 32 - Financial Instruments: Presentation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) **Investment in 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 balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity over which the Bank exerts control (see note 2.4). Where the Bank does not have effective control but has significant influence, such investment is then regarded as an associate and accounted for under the equity accounting method (see note 8).

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 consolidated statement of income, such that the carrying amount of investment in the balance sheet remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(3.3) **Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.4) **Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and valuation models as appropriate.

(3.4.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.4) **Derivative financial instruments and hedge accounting (continued)**

(3.4.2) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders‟ equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in shareholders‟ equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated statement of income.

(3.5) **Foreign currencies**

The consolidated financial statements are presented in Saudi Riyals, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB and NCB Capital is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate and TCP is U.S. Dollar.

(a) Transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are retranslated into functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.5) **Foreign currencies (continued)**

(b) Foreign subsidiaries

As at the reporting date, the assets and liabilities of the foreign subsidiaries are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, shareholders equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the income statement in „Other operating expenses‟ or „Other operating income‟ at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign subsidiary and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate.

(3.6) **Offsetting financial instruments**

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(3.7) **Revenue / expenses recognition**

Special commission income and expense for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income on the effective yield basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

The calculation of the effective special commission rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Foreign exchange income from banking services are recognized when earned. Dividend income is recognized when the right to receive dividend income is established.

Fees income is recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) **Trading income, net**

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.9) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position and are measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers" deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA, due from banks and other financial institutions or loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.10) **Business combinations and goodwill**

Business combinations are accounted for using the purchase method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group"s accounting policy.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group"s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated income statement. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Intangible assets**

Current balance of intangible assets in the statement of financial position includes customer deposits relationships, the value of the subsidiary's brands, and other banking relationships (asset management, private equity and trust structure). Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 5-6 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(3.12) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction cost except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.12) **Investments (continued)**

(b) Held at fair value through income statement (FVIS)

Investments can be designated as FVIS at inception except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured. These include all hedge funds investments that are managed, by the Group directly or indirectly, and whose performance is evaluated on a fair value basis. The Group also classifies some compound debt instruments as Fair Value through Income Statement (FVIS). Under this option, the Group fair values the entire instrument instead of separating the embedded derivative from the host contract and carrying the host at amortised cost.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

(c) Available for sale

Available-for-sale investments are those equity and debt securities, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are subsequently measured at fair value. Any unrealised gain or loss arising from a change in their fair value is recognized through the consolidated statement of comprehensive income in "other reserves" under shareholders‟ equity until the investments are derecognized or impaired. On derecognition, cumulative gains or losses previously recognized in shareholders‟ equity are included in the consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

Available for sale investments, where fair value cannot be reliably measured, are carried at cost. For impairment of available for sale investments, see note 3.15(b).

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.13) **Loans and advances**

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and advances are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

For presentation purposes, provision for credit losses is deducted from loans and advances.

(3.14) **Due from banks and other financial institutions**

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.15) **Impairment of financial assets**

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses of corporate loans, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Consumer loans are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the „flow rate" methodology. The provision coverage is 100% for such non-performing loans which reach the "write-off point" (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.15) **Impairment of financial assets (continued)**

(b) Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as provision for impairment on investment.

Where a loss has been recognized directly under shareholders‟ equity, the cumulative net loss recognized in shareholders‟ equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

For impairment of non-financial assets, see note [2.5(f)].

(3.16) **Other real estate**

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of such related assets, less any costs to sell (if material).

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of other real estates can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other non-operating income/(expenses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.17) **Property and equipment**

Property and equipment are stated at cost and presented net of accumulated depreciation.

Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets‟ residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset‟s carrying amount is greater than its estimated recoverable amount.

(3.18) **Financial liabilities**

All money market deposits, customers‟ deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, other than those held for trading or at FVIS or where fair values have been hedged, if any, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.19) **Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

(3.20) **Provisions**

Provisions (other than impairment or credit loss provisions) are recognized when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.21) **Accounting for leases**

(a) Where the Group is the lessee

All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are sold under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.22) **Zakat and overseas income tax**

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on their behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of country in which they are incorporated and such taxes are reported under non-operating expenses.

(3.23) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions maturing within ninety days.

(3.24) **Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

(3.25) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group‟s share of these funds is included in held for trading investments.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and its subsidiaries and, accordingly, are not included in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.26) **Financing products in compliance with *Shariah* rules**

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank‟s Shariah Board.

3.26.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank‟s cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

3.26.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

3.26.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants.

3.26.4) Istisna‟a

Istisna‟a is a contract for the acquisition of assets to be manufactured in accordance with customer specifications. The Bank signs Istisna‟a contracts with customers to provide specified assets at agreed-upon prices (equal to the Bank‟s cost plus a specified profit margin) and payment terms. The Bank then signs parallel Istisna‟a agreements with manufacturers for the delivery of these assets in return for settlement of the costs by the Bank.

All the above Shariah-compliant financing products are accounted for using IFRS and in conformity with the accounting policies described in these financial statements. They are included in loans and advances.

(3.27) **Shariah-compliant deposit products**

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank‟s Shariah Board.

3.27.1) AlKhairaat

Alkhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

This Shariah-compliant deposit product is accounted for using IFRS, in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.28) **Treasury shares**

Treasury shares are recorded at acquisition cost and presented as a deduction from shareholders' equity. Any gains or losses on disposal of such shares are reflected under shareholders' equity and shall not be recognized in the consolidated income statement.

(3.29) **End of Service Benefits**

The provision for end of service benefits is based on the rules stated under The Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

The provision for the Bank is also in line with independent actuarial valuation of the Bank liability.

(3.30) **Staff Compensation**

The Bank‟s Board of Directors and its Nomination and Compensation Committee oversee the design and implementation of the Bank's Compensation process in accordance with SAMA‟s Compensation Rules.

Key elements of compensation in the Bank:

(3.30.1) Fixed Compensation

The fixed compensation element comprises salaries, allowances and cash and in-kind benefits. Salaries are set in relation to market rates to attract, retain and incentivize talented individuals. Salary administration is based on some key processes such as role profiling, job evaluation and pay scales and grading. The competitiveness of the pay structure is maintained through participation in periodic and regular market pay surveys.

(3.30.2) Variable Compensation

Variable compensation is designed to drive performance and limit excessive risk-taking. The Bank maintains two plans under this compensation element:

(a) Annual Performance Bonus

This plan aims to achieve a set of annual financial and non-financial objectives. Financial objectives relate to the economic performance of banking operations, while non-financial objectives relate to compliance with risk standards in addition to the achievement of certain strategic objectives relating to the employee development, teamwork, staff morale and other objectives.

The Bank has a periodic performance appraisal process aimed at assessing employees‟ performance and contribution. Annual performance bonus payments are based on employee contributions as well as the performance of their businesses and the Bank‟s overall results. The overall annual performance bonus pool is set as a percentage of the Bank‟s net income, adjusted to reflect the core performance of the Bank's employees. The Bank does not have a guaranteed bonus plan.

The cost of this plan is recognized in the income statement of the year to which it relates and is normally paid during the 1st quarter of the following year.

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long-term corporate success, measured on the basis of return on equity (ROE) attributable to the equity holders of the Parent. The plan is rolled out in three-year cycles. The Bank's actual performance is assessed at the end of each cycle as a basis for determining the actual payout amount.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection is made through rigorous vetting to ensure that other critical participation criteria are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.30) **Staff Compensation (continued)**

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The three year cost estimate is apportioned and charged equally to the income statement of each year in the cycle. As the estimate is revised annually, the difference between the latest and the previous estimate is apportioned and charged equally over the remainder of the cycle.

(3.30.3) Compensation and Nomination Committee

The Compensation and Nomination Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities have been reviewed and updated in line with SAMA‟s Compensation Rules.

The Committee is responsible for the development and implementation of the compensation process and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

4.CASH AND BALANCES WITH SAMA

	2011	2010
	SR '000	SR ‟000
Cash in hand	**3,247,183**	2,759,131
Balances with SAMA:		
Statutory deposit	**13,796,736**	12,153,671
Current accounts	**158**	9,918
Money market placements (Reverse repo)	**7,657,947**	13,009,819
Total	**24,702,024**	27,932,539

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 34). The statutory deposits with SAMA are not available to finance the Bank‟s day-to-day operations and therefore are not part of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SR '000	2010 SR '000
Current accounts	**2,961,824**	4,447,925
Money market placements	**8,601,541**	7,400,381
Total	**11,563,365**	11,848,306
Provision for impairment and counterparty risk	**(1,875)**	(1,875)
Due from banks and other financial institutions, net	**11,561,490**	11,846,431

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	2011 SR '000	2010 SR '000	2011 SR '000	2010 SR '000
Mutual funds	**508,510**	587,110	-	-	**508,510**	587,110
Held for trading	**508,510**	587,110	-	-	**508,510**	587,110

(b) Held as FVIS

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	2011 SR '000	2010 SR '000	2011 SR '000	2010 SR '000
Hedge funds and externally managed portfolio	**-**	-	**3,109,644**	4,448,001	**3,109,644**	4,448,001
Held as FVIS	**-**	-	**3,109,644**	4,448,001	**3,109,644**	4,448,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. INVESTMENTS, NET (continued)

(c) Available for sale

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	**2010** SR '000
Fixed rate securities	**309,278**	364,226	**24,188,536**	21,293,870	**24,497,814**	21,658,096
Floating rate securities	-	-	**4,724,271**	5,776,361	**4,724,271**	5,776,361
Structured credit	-	-	**214,596**	459,448	**214,596**	459,448
Mutual funds	-	-	**172**	172	**172**	172
Equities	**2,158,718**	2,578,846	**28,992**	27,869	**2,187,710**	2,606,715
Private equity funds	-	-	**1,775,032**	1,505,224	**1,775,032**	1,505,224
Available for sale, gross	**2,467,996**	2,943,072	**30,931,599**	29,062,944	**33,399,595**	32,006,016
Provision for impairment	**(25,527)**	-	**(1,107,320)**	(1,520,939)	**(1,132,847)**	(1,520,939)
Available for sale, net	**2,442,469**	2,943,072	**29,824,279**	27,542,005	**32,266,748**	30,485,077

(d) Held to maturity

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	2010 SR '000
Fixed rate securities	-	-	**2,154,228**	2,153,841	**2,154,228**	2,153,841
Floating rate securities	-	-	**13,554**	36,440	**13,554**	36,440
Held to maturity, gross	-	-	**2,167,782**	2,190,281	**2,167,782**	2,190,281
Provision for impairment	-	-	**(1,494)**	(1,494)	**(1,494)**	(1,494)
Held to maturity, net	-	-	**2,166,288**	2,188,787	**2,166,288**	2,188,787

(e) Other investments held at amortized cost

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	2010 SR '000
Fixed rate securities	**51,280,245**	46,773,416	**25,669,499**	19,214,788	**76,949,744**	65,988,204
Floating rate securities	**4,700,024**	3,791,000	**797,063**	617,676	**5,497,087**	4,408,676
Other investments held at amortized cost, gross	**55,980,269**	50,564,416	**26,466,562**	19,832,464	**82,446,831**	70,396,880
Provision for impairment	-	-	**(8,853)**	(40,606)	**(8,853)**	(40,606)
Other investments held at amortized cost, net	**55,980,269**	50,564,416	**26,457,709**	19,791,858	**82,437,978**	70,356,274
Investments, net	**58,931,248**	54,094,598	**61,557,920**	53,970,651	**120,489,168**	108,065,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(6.2) The analysis of the composition of investments is as follows:

	2011 SR '000			2010 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**26,652,042**	**76,949,744**	**103,601,786**	23,503,241	66,296,899	89,800,140
Floating rate securities	**4,737,825**	**5,497,087**	**10,234,912**	5,494,707	4,726,770	10,221,477
Structured credit	**-**	**214,596**	**214,596**	-	459,448	459,448
Mutual funds	**508,510**	**172**	**508,682**	587,110	172	587,282
Hedge funds and externally managed portfolio	**-**	**3,109,645**	**3,109,645**	-	4,448,001	4,448,001
Equities	**2,111,816**	**75,894**	**2,187,710**	2,531,944	74,771	2,606,715
Private equity funds	**-**	**1,775,031**	**1,775,031**	-	1,505,224	1,505,224
Investments, gross	**34,010,193**	**87,622,169**	**121,632,362**	32,117,002	77,511,285	109,628,287
Provision for impairment	**(217,238)**	**(925,956)**	**(1,143,194)**	(245,376)	(1,317,662)	(1,563,038)
Investments, net	**33,792,955**	**86,696,213**	**120,489,168**	31,871,626	76,193,623	108,065,249

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities include sovereign, corporate and bank bonds, and asset-backed securities including Collateralized Debt Obligations (CDOs) and Collateralized Loans Obligations (CLOs).

Structured credit includes junior notes of Collateralized Debt Obligations and Collateralized Loans Obligations.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities that although are quoted but for which there is no active market, and their carrying value amounts to SR 24,557 million (2010: SR 17,486 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. INVESTMENTS, NET (continued)

(6.3) The analyses of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortized cost are as follows:

(a) Held to maturity

	2011 SR '000				2010 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**2,154,228**	**123,555**	**-**	**2,277,783**	2,153,841	115,221	-	2,269,062
Floating rate securities	**13,554**	**-**	**(268)**	**13,286**	36,440	-	(4,920)	31,520
Held to maturity, gross	**2,167,782**	**123,555**	**(268)**	**2,291,069**	2,190,281	115,221	(4,920)	2,300,582
Provision for impairment	**(1,494)**	-	-	**(1,494)**	(1,494)	-	-	(1,494)
Total	**2,166,288**	**123,555**	**(268)**	**2,289,575**	2,188,787	115,221	(4,920)	2,299,088

(b) Other investments held at amortized cost

	2011 SR '000				2010 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**76,949,744**	**2,236,856**	**(114,334)**	**79,072,266**	65,988,204	1,884,015	(212,272)	67,659,947
Floating rate securities	**5,497,087**	**120,914**	**(309)**	**5,617,692**	4,408,676	134,154	(50,566)	4,492,264
Other investments held at amortized cost, gross	**82,446,831**	**2,357,770**	**(114,643)**	**84,689,958**	70,396,880	2,018,169	(262,838)	72,152,211
Provision for impairment	**(8,853)**	-	-	**(8,853)**	(40,606)	-	-	(40,606)
Total	**82,437,978**	**2,357,770**	**(114,643)**	**84,681,105**	70,356,274	2,018,169	(262,838)	72,111,605

Equities reported under available for sale investments include unquoted shares of SR 72.4 million (2010: SR 71.2 million), net of provision for impairment, that are carried at cost as their fair values cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

6. INVESTMENTS, NET (continued)

(6.4) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	2011 SR '000	2010 SR '000
Balance at beginning of the year	**1,563,038**	1,912,154
Provided during the year	**161,985**	360,513
(Recoveries) of amounts previously provided	**(139,985)**	(307,630)
(Written-off) against investments sold	**(441,844)**	(401,999)
Balance at the end of the year	**1,143,194**	1,563,038

(6.5) Net charge for impairment provision on investments for the year in the consolidated statement of income:

	2011 SR '000	2010 SR '000
Addition during the year	**161,985**	360,513
(Recoveries) of amounts previously provided	**(139,985)**	(307,630)
Net charge for the year (impairment charge on investments, net)	**22,000**	52,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2011					
Performing loans and advances	**1,779,329**	**38,423,592**	**92,902,974**	**3,928,963**	**137,034,858**
Non-performing loans and advances	**79,745**	**203,127**	**3,782,980**	**205,417**	**4,271,269**
Total loans and advances	**1,859,074**	**38,626,719**	**96,685,954**	**4,134,380**	**141,306,127**
Provision for credit losses	**(116,385)**	**(745,305)**	**(4,927,424)**	**(227,517)**	**(6,016,631)**
Loans & advances, net	**1,742,689**	**37,881,414**	**91,758,530**	**3,906,863**	**135,289,496**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2010					
Performing loans and advances	1,954,481	32,874,953	89,401,995	2,240,058	126,471,487
Non-performing loans and advances	40,995	436,959	4,347,543	337,113	5,162,610
Total loans and advances	1,995,476	33,311,912	93,749,538	2,577,171	131,634,097
Provision for credit losses	(129,792)	(845,873)	(4,836,465)	(224,876)	(6,037,006)
Loans & advances, net	1,865,684	32,466,039	88,913,073	2,352,295	125,597,091

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with *Shariah* rules mainly Murabaha, Tayseer and Ijara which are stated at cost less provisions for credit losses, of SR 80,967 million (2010: SR 70,035 million).

Provision for credit losses related to financing products in compliance with *Shariah* rules is SR 1,771 million (2010: SR 1,846 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

7. LOANS AND ADVANCES, NET (continued)

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

			SR '000		
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2011					
Balance at beginning of the year	**129,792**	**845,873**	**4,836,465**	**224,876**	**6,037,006**
Provided during the year	**90,365**	**567,375**	**761,321**	**36,200**	**1,455,261**
Bad debts (written off)	**(103,188)**	**(663,872)**	**(561,407)**	**(33,559)**	**(1,362,026)**
(Recoveries) of amounts previously provided	**(584)**	**(4,071)**	**(108,955)**	**-**	**(113,610)**
Balance at the end of the year	**116,385**	**745,305**	**4,927,424**	**227,517**	**6,016,631**

			SR '000		
	Credit cards	Consumer	Corporate	Others	Total
2010					
Balance at beginning of the year	96,224	575,023	3,653,233	298,856	4,623,336
Provided (reversed) during the year	127,092	860,092	1,425,241	(4,436)	2,407,989
Bad debts (written off)	(90,562)	(583,571)	(124,907)	(49,544)	(848,584)
(Recoveries) of amounts previously provided	(2,962)	(5,671)	(117,102)	(20,000)	(145,735)
Balance at the end of the year	129,792	845,873	4,836,465	224,876	6,037,006

(7.3) Net impairment charge for credit losses for the year in the consolidated statement of income:

	2011	2010
	SR '000	SR '000
Addition during the year	**1,455,261**	2,407,989
(Recoveries) of amounts previously provided	**(113,610)**	(145,735)
	1,341,651	2,262,254
Provision (recoveries) against indirect facilities (included in other liabilities) (note 16)	**11,479**	(6,373)
(Recoveries) of debts previously written-off	**(346,756)**	(445,155)
Direct write-off	**26,943**	20,834
Net charge for the year (impairment charge for credit losses, net)	**1,033,317**	1,831,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. LOANS AND ADVANCES, NET (continued)

(7.4) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

2011	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Non-performing, net SR' 000	Loans and advances, net SR' 000
Government and quasi Government	3,639,760	-	-	-	3,639,760
Banks and other financial institutions	2,684,239	37,585	(37,543)	42	2,684,281
Agriculture and fishing	619,418	8,597	(6,956)	1,641	621,059
Manufacturing	20,352,974	272,636	(213,794)	58,842	20,411,816
Electricity, water, gas and health services	6,487,151	35,708	(31,027)	4,681	6,491,832
Building and construction	8,504,269	1,078,641	(1,042,821)	35,820	8,540,089
Commerce	26,669,474	2,218,365	(2,136,169)	82,196	26,751,670
Transportation and communication	9,221,332	59,224	(55,563)	3,661	9,224,993
Services	15,843,284	80,566	(74,988)	5,578	15,848,862
Consumer loans and credit cards	40,202,921	282,872	(197,829)	85,043	40,287,964
Others	2,810,036	197,075	(175,047)	22,028	2,832,064
	137,034,858	4,271,269	(3,971,737)	299,532	137,334,390
Portfolio (collective) provision					(2,044,894)
Loans and advances, net					135,289,496

2010	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Non-performing, net SR' 000	Loans and advances, net SR' 000
Government and quasi Government	9,003,346	-	-	-	9,003,346
Banks and other financial institutions	329,896	37,589	(37,541)	48	329,944
Agriculture and fishing	587,208	12,563	(8,406)	4,157	591,365
Manufacturing	16,366,779	317,661	(219,625)	98,036	16,464,815
Electricity, water, gas and health services	4,294,633	40,400	(35,113)	5,287	4,299,920
Building and construction	7,694,655	1,158,548	(1,115,408)	43,140	7,737,795
Commerce	25,605,584	2,626,161	(2,354,937)	271,224	25,876,808
Transportation and communication	9,503,782	44,846	(39,213)	5,633	9,509,415
Services	15,031,626	141,758	(75,475)	66,283	15,097,909
Consumer loans and credit cards	34,423,030	469,957	(404,889)	65,068	34,488,098
Others	3,630,948	313,127	(136,871)	176,256	3,807,204
	126,471,487	5,162,610	(4,427,478)	735,132	127,206,619
Portfolio (collective) provision					(1,609,528)
Loans and advances, net					125,597,091

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31 DECEMBER 2011

7. LOANS AND ADVANCES, NET (continued)

(7.5) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	2011 SR '000	2010 SR '000
Gross receivables from finance leases:		
Less than 1 year	**1,307,312**	422,280
1 to 5 years	**3,673,460**	4,616,603
Over 5 years	**2,595,016**	-
	7,575,788	5,038,883
Unearned finance income on finance leases	**(1,676,482)**	(1,086,598)
Net receivables from finance leases	**5,899,306**	3,952,285

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 294 million (2010: SR 267 million).

8. INVESTMENT IN ASSOCIATES, NET

	2011 SR '000	2010 SR '000
Cost:		
At beginning of the year	**1,463,682**	1,463,682
Additions	**24,000**	-
Partial redemption	**(232)**	-
At 31 December	**1,487,450**	1,463,682
Provision for impairment and share of losses:		
At beginning of the year	**(636,217)**	(618,943)
Additions, net (note 27)	**(12,658)**	(17,274)
At 31 December	**(648,875)**	(636,217)
Investment in associates, net	**838,575**	827,465

Investment in associates represents a 60% (2010: 60%) ownership interest in the Commercial Real Estate Markets Company (see note 3.2), 30% (2010: 30%) ownership interest in each of Al Behar Real Estate Investment Company and Al-Ahali Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. OTHER REAL ESTATE, NET

	2011 **SR '000**	2010 SR '000
Cost:		
At beginning of the year	**368,394**	375,539
Additions	**33,151**	6,345
Disposals	**(44,424)**	(13,490)
At 31 December	**357,121**	368,394
Provision and foreign currency translation:		
Foreign currency translation reserve	**(12,718)**	-
Provision for unrealized revaluation losses	**(95,234)**	(88,729)
At 31 December	**(107,952)**	(88,729)
Total	**249,169**	279,665

10. PROPERTY AND EQUIPMENT, NET

	2011			2010		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	**2,586,149**	**1,785,138**	**4,371,287**	2,540,616	1,703,234	4,243,850
Additions	**288,983**	**358,208**	**647,191**	69,068	232,295	301,363
Disposals and retirement	**(19,889)**	**(40,373)**	**(60,262)**	(23,535)	(150,391)	(173,926)
At 31 December	**2,855,243**	**2,102,973**	**4,958,216**	2,586,149	1,785,138	4,371,287
Accumulated depreciation and foreign currency translation:						
At beginning of the year	**1,112,272**	**1,162,010**	**2,274,282**	1,012,542	1,078,173	2,090,715
Foreign currency translation reserve	**25,222**	**28,415**	**53,637**	-	-	-
Charge for the year	**99,641**	**252,736**	**352,377**	108,820	226,336	335,156
Disposals and retirement	**(11,765)**	**(27,668)**	**(39,433)**	(9,090)	(142,499)	(151,589)
At 31 December	**1,225,370**	**1,415,493**	**2,640,863**	1,112,272	1,162,010	2,274,282
Net book value:						
As at 31 December	**1,629,873**	**687,480**	**2,317,353**	1,473,877	623,128	2,097,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. GOODWILL AND INTANGIBLE ASSETS

(11.1) Net book value

	2011		2010	
	Goodwill	**Intangibles**	Goodwill	Intangibles
	SR '000	**SR '000**	SR '000	SR '000
Cost:				
At beginning of the year	**2,213,874**	**1,566,294**	2,213,874	1,566,294
At 31 December	**2,213,874**	**1,566,294**	2,213,874	1,566,294
Amortisation, impairment and foreign currency translation:				
At beginning of the year	**1,479,130**	**643,617**	1,230,418	359,329
Amortisation charge for the year	-	**197,880**	-	235,557
Impairment loss	-	-	224,485	52,668
Foreign currency translation reserve	**130,109**	**98,489**	24,227	(3,937)
At 31 December	**1,609,239**	**939,986**	1,479,130	643,617
Net book value:				
At 31 December	**604,635**	**626,308**	734,744	922,677

(11.2) Impairment testing of goodwill

In accordance with the requirements of International Financial Reporting Standards (IAS 36), the Group has performed an impairment test as at 30 November 2011 in respect of the goodwill arising as a result of the acquisition of Türkiye Finans Katılım Bankası A.Ş.. The goodwill arising on this acquisition has been allocated to Türkiye Finans Katılım Bankası A.Ş..

No goodwill impairment loss has been recognized for Türkiye Finans Katılım Bankası A.Ş. in 2011 and 2010.

The impairment loss of goodwill and intangible assets for The Capital Partnership Group in 2010 amounted to SR 277 million.

(11.2.1) Türkiye Finans Katılım Bankası A.Ş.,

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out the impairment test in respect of the goodwill arising as a result of acquiring Türkiye Finans Katılım Bankası A.Ş. (TFK). The recoverable amount of TFK has been determined based on higher of value in use or fair value less cost to sell. The two key assumptions used in the goodwill impairment testing in respect of TFK are the discount rate and the estimated future cash flow.

The average discount rate of 14% (2010: 14%) was used to discount the future cash flow.

A long term growth rate of 4% (2010: 4%) is used in the terminal value calculation which is in line with expected long term inflation rates in Turkey.

Based on the above, the recoverable amount based on value in use as at 30 November 2011 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2011 in respect of TFK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. OTHER ASSETS

	2011 SR '000	2010 SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	**7,523**	12,244
- investments	**780,710**	842,121
- loans and advances	**503,786**	371,722
- derivatives	**71,820**	53,710
Total accrued special commission income receivable	**1,363,839**	1,279,797
Prepayments and accounts receivable	**385,554**	455,870
Margin deposits against derivatives and repos	**641,068**	655,871
Positive fair value of derivatives, net (note 13)	**465,956**	402,813
Others	**1,663,526**	1,274,775
Total	**4,519,943**	4,069,126

13. DERIVATIVES

(13.1) Derivative products

In the ordinary course of business, the Group utilizes 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.

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13. DERIVATIVES (continued)

(e) Swaptions

Swaptions are options on swaps and entail an option on the fixed rate component of a swap. An option on a swap provides the purchaser or holder of the option the right, but not the obligation to enter into a swap where it pays fixed rates against receipt of a floating rate index as at a future date.

(f) Structured Derivative products

Structured derivative products provide financial solutions to the customers of the Bank 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. All structured derivative transactions are entered by the Bank on back-to-back basis with various counterparties and the Bank does not keep any open position.

(13.2) 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.

(13.3) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 32 - credit risk, note 33 - market risk and note 34 - liquidity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. DERIVATIVES (continued)

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 year end, 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.

			(SR '000) Notional amounts by term to maturity					
2011	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	182,484	(177,291)	5,424,126	-	308,075	4,374,530	741,521	8,167,679
Special commission rate options and futures	995	(995)	332,432	-	332,432	-	-	1,049,144
Forward foreign exchange contracts	135,939	(81,879)	52,094,215	23,523,507	28,476,708	94,000	-	58,687,788
Options	4,169	(5,951)	117,599	57,105	4,702	55,792	-	8,876,844
Structured derivatives	69,422	(69,657)	20,530,078	1,316,663	13,951,379	5,262,036	-	39,750,934
Held as fair value hedges:								
Special commission rate swaps	-	(430,189)	1,833,069	-	-	93,750	1,739,319	1,856,860
Held as cash flow hedges:								
Special commission rate swaps	73,164	(16,279)	4,830,250	-	240,000	4,590,250	-	2,850,521
Total	**466,173**	**(782,241)**	**85,161,769**	**24,897,275**	**43,313,296**	**14,470,358**	**2,480,840**	
Provision for counterparty risk	(217)	-						
Fair value, net (note 12 & 16)	**465,956**	**(782,241)**						

			(SR '000) Notional amounts by term to maturity					
2010	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	210,876	(202,318)	6,100,674	4,000	581,740	5,145,052	369,882	7,645,823
Special commission rate options and futures	34,705	(26,859)	2,041,926	135,000	1,400,484	573,942	-	2,527,564
Forward foreign exchange contracts	91,421	(89,497)	54,148,814	32,680,525	20,636,986	831,303	-	44,115,131
Options	20,958	(20,958)	4,679,046	4,634,046	45,000	-	-	3,995,614
Structured derivatives	12,902	(22,340)	4,654,160	-	-	1,500,000	3,154,160	6,409,392
Held as fair value hedges:								
Special commission rate swaps	-	(190,347)	1,814,332	-	-	-	1,814,332	1,750,988
Held as cash flow hedges:								
Special commission rate swaps	32,168	(2,748)	769,000	100,000	160,000	509,000	-	1,070,667
Total	403,030	(555,067)	74,207,952	37,553,571	22,824,210	8,559,297	5,338,374	
Provision for counterparty risk	(217)	-						
Fair value, net (note 12 & 16)	402,813	(555,067)						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

13. DERIVATIVES (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

2011 **Description of hedged items**	**Fair value**	**Cost**	**Risk**	**(SR '000)** **Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed rate instruments	**3,563,176**	**3,102,150**	Fair value	Special commission rate swap	**-**	**(430,189)**
Floating rate instruments	**3,565,262**	**3,559,000**	Cash flow	Special commission rate swap	**73,164**	**(16,279)**

2010 Description of hedged items	Fair value	Cost	Risk	(SR '000) Hedging instrument	Positive fair value	Negative fair value
Fixed rate instruments	2,379,244	2,187,768	Fair value	Special commission rate swap	-	(190,347)
Floating rate instruments	767,990	769,100	Cash flow	Special commission rate swap	32,168	(2,748)

The losses on the hedging instruments for fair value hedge are SR 240 million (2010: SR 0.3 million). The gains on the hedged items attributable to the hedged risk are SR 240 million (2010: SR 0.3 million). Thus, the net fair value is Nil (2010: Nil).

Approximately 27% (2010: 31%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 73% (2010: 69%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Reconciliation of movements in the other reserve of cash flows hedges:

	2011 **SR '000**	2010 SR '000
Balance at beginning of the year	**29,419**	85,210
Gains from changes in fair value recognised directly in equity, net (effective portion)	**80,561**	22,122
(Gains) removed from equity and transferred to consolidated statement of income	**(53,095)**	(77,913)
Balance at end of the year	**56,885**	29,419

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in (2010: reclassification of the associated cumulative gains of SR 0.5 million SR 34 million) from equity to consolidated statement of income, included in the gains above.

For cash flows hedges, the amount shown as balance of other reserves under shareholders' equity as at 31 December 2011 is mainly expected to affect the consolidated statement of income in the forthcoming one to five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SR '000	2010 SR '000
Current accounts	**2,210,445**	1,769,710
Money market deposits	**5,573,067**	5,849,868
Money market deposits (Repos)	**12,156,154**	6,712,120
Total	**19,939,666**	14,331,698

Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the absence of default by the Bank.

The carrying amount and fair value of securities lent and of securities sold under agreement to repurchase (repo) are as follows:

	2011 SR '000		2010 SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**11,829,776**	**11,829,776**	5,710,563	5,710,563
Held to maturity	**-**	**-**	843,870	848,657
Investments held at amortized cost	**299,351**	**315,818**	-	-
Total	**12,129,127**	**12,145,594**	6,554,433	6,559,220

The Bank has placed a margin deposit of SR 34 million (2010: SR 174 million) as an additional security for these repo transactions.

15. CUSTOMERS' DEPOSITS

	2011 SR '000	2010 SR '000
Current accounts	**168,565,006**	142,116,553
Savings	**148,876**	153,474
Time	**60,426,636**	75,708,149
Others	**10,317,040**	11,182,005
Total	**239,457,558**	229,160,181

Other customers" deposits include SR 3,046 million (2010: SR 2,852 million) of margins held for irrevocable commitments and contingencies.

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15. CUSTOMERS' DEPOSITS

Foreign currency deposits included in customers' deposits:

	2011 **SR '000**	2010 SR '000
Current accounts	**11,665,785**	9,685,373
Savings	**1,786**	-
Time	**22,937,166**	35,634,812
Others	**878,976**	2,672,858
Total	**35,483,713**	47,993,043

16. OTHER LIABILITIES

	2011 **SR '000**	2010 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	**21,284**	7,627
- customers' deposits	**227,017**	201,974
- derivatives	**68,515**	77,018
Total accrued special commission expense payable	**316,816**	286,619
Negative fair value of derivatives (note 13)	**782,241**	555,067
Zakat (NCB parent and NCBC)	**453,839**	161,220
Staff-related payables	**1,402,904**	1,409,173
Accrued expenses and accounts payable	**1,135,935**	960,797
Provisions for indirect facilities (note 7.3)	**222,195**	218,413
Others	**1,901,753**	2,432,131
Total	**6,215,683**	6,023,420

17. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank excluding treasury shares (see note 42) consists of 1,495,975,148 shares of SR 10 each (2010: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders.

18. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

19. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in shareholders' equity. These reserves are not available for distribution.

20. COMMITMENTS AND CONTINGENCIES

(20.1) Legal proceeding

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

On 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal of the Bank and numerous other defendants. Through a series of notices filed on or before 15 August 2011, the plaintiffs in all lawsuits against the Bank have commenced appeals of the judgment of dismissal of the Bank and numerous other defendants and has filed an opening brief on 20 January 2012.

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

(20.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2011 in respect of building and equipment purchases are not material to the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

20. COMMITMENTS AND CONTINGENCIES (continued)

(20.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
2011	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Guarantees	**12,595,316**	**16,772,096**	**17,828,629**	**665,252**	**47,861,293**
Letter of credit	**12,833,440**	**5,045,415**	**543,891**	**531,884**	**18,954,630**
Acceptances	**2,219,250**	**957,547**	**76,508**	**8,315**	**3,261,620**
Irrevocable commitments to extend credit	-	**2,557,714**	**5,717,098**	**825,000**	**9,099,812**
Total	**27,648,006**	**25,332,772**	**24,166,126**	**2,030,451**	**79,177,355**

			(SR '000)		
2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	13,400,538	9,688,503	18,856,759	257,745	42,203,545
Letter of credit	12,673,575	3,901,237	1,353,271	28,496	17,956,579
Acceptances	1,673,721	714,096	117,102	-	2,504,919
Irrevocable commitments to extend credit	-	2,392,793	6,614,995	-	9,007,788
Total	27,747,834	16,696,629	26,942,127	286,241	71,672,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

20. COMMITMENTS AND CONTINGENCIES (continued)

(b) The analysis of commitments and contingencies by counterparty is as follows:

	2011 SR '000	2010 SR '000
Government and quasi Government	**3,282,209**	4,753,153
Corporate and establishments	**54,623,665**	46,661,191
Banks and other financial institutions	**20,474,051**	19,495,432
Others	**797,430**	763,055
Total	**79,177,355**	71,672,831

(20.4) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	2011 SR '000	2010 SR '000
Less than 1 year	**189,846**	148,331
1 to 5 years	**571,969**	432,410
Over 5 years	**547,684**	401,093
Total	**1,309,499**	981,834

21. NET SPECIAL COMMISSION INCOME

	2011 SR '000	2010 SR '000
Special commission income:		
Investments - available for sale	**897,565**	900,892
Investments - held to maturity	**63,197**	63,919
Other investments held at amortized cost	**1,917,820**	1,737,458
Sub total - investments	**2,878,582**	2,702,269
Due from banks and other financial institutions	**65,108**	107,237
Loans and advances	**7,241,413**	6,901,748
Total	**10,185,103**	9,711,254
Special commission expense:		
Due to banks and other financial institutions	**118,613**	59,375
Customers' deposits	**1,485,064**	1,487,223
Debt securities issued	**-**	14,854
Total	**1,603,677**	1,561,452
Net special commission income	**8,581,426**	8,149,802

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31 DECEMBER 2011

22. FEE INCOME FROM BANKING SERVICES, NET

	2011 SR '000	2010 SR '000
Fee income:		
Shares brokerage	**310,034**	202,520
Investment management services	**222,093**	302,571
Finance and lending	**1,107,553**	1,021,646
Others	**1,454,410**	1,370,409
Total	**3,094,090**	2,897,146
Fee expenses:		
Shares brokerage	**50,294**	31,503
Investment management services	**11,966**	13,134
Others	**400,498**	364,651
Total	**462,758**	409,288
Fees from banking services, net	**2,631,332**	2,487,858

Other fee income includes fees from trade finance, credit cards and other miscellaneous banking activities.

23. (LOSS)/INCOME FROM FVIS INVESTMENTS, NET

	2011 SR '000	2010 SR '000
Revaluation (loss)/gains on investments held as FVIS	**(86,704)**	180,895
Special commission income on FVIS investments	**-**	220
Total (loss) income	**(86,704)**	181,115

24. TRADING INCOME, NET

	2011 SR '000	2010 SR '000
Foreign exchange	**95,769**	102,233
Mutual funds	**11,767**	8,710
Derivatives	**39,933**	40,053
Bonds	**-**	158
Total	**147,469**	151,154

25. DIVIDEND INCOME

	2011 SR '000	2010 SR '000
Available for sale investments	**65,626**	65,781

26. GAINS ON NON-TRADING INVESTMENTS, NET

	2011 SR '000	2010 SR '000
Gains on available for sale investments, net	**246,231**	275,141
Gains on other investments held at amortised cost, net	**78,709**	7,619
Total	**324,940**	282,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. OTHER NON-OPERATING (EXPENSES), NET

	2011 SR '000	2010 SR '000
Income (loss) from other real estate		
Rental income, net	**933**	28
Gain on disposal, net	**471**	2,275
(Provision for) unrealized revaluation loss	**(6,365)**	(5,645)
Net (loss) from other real estate	**(4,961)**	(3,342)
Overseas income tax of a foreign subsidiary and branches	**(139,443)**	(118,347)
Bank's share in associates' (losses) (note 8)	**(12,658)**	(17,274)
Gain on disposal of property and equipment	**13,749**	9,606
Net other (expenses)	**(30,070)**	(33,493)
Total	**(173,383)**	(162,850)

28. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2011 and 2010 is calculated by dividing the net income attributable to equity holders of the parent for the year by the weighted average number of shares outstanding during 2011 and 2010 (see note 17).

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

29. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended a dividend, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	2011	2010	**2011**	2010
Interim dividend paid	**1,196,780**	1,196,780	**0.80**	0.80
Proposed final dividend	**1,495,975**	1,495,975	**1.00**	1.00
Total net dividend	**2,692,755**	2,692,755	**1.80**	1.80
Zakat attributable to shareholders of the parent	**434,134**	151,529		
Total gross dividend	**3,126,889**	2,844,284		

The zakat assessments had been finalized with the Department of Zakat and Income Tax (DZIT) for all the years up to 2007. The Bank has submitted zakat returns for the years 2008 to 2010 and obtained limited zakat certificates for these years which are under the process of final assessment by DZIT.

30. CASH AND CASH EQUIVALENTS

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

	2011 SR '000	2010 SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**10,905,288**	15,778,868
Due from banks and other financial institutions maturing within ninety days (note 5)	**9,810,240**	11,846,431
Total	**20,715,528**	27,625,299

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31 DECEMBER 2011

31. OPERATING SEGMENTS

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

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

Consumer - Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals, small sized businesses and private banking customers.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to medium and large establishments and companies.

Treasury - Provides a full range of treasury products and services, including money market and foreign exchange, to the Bank"s clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market - Provides wealth management, assets management, investment banking and shares brokerage services (local, regional and international).

International - Comprises banking services provided outside Saudi Arabia including overseas subsidiaries and international banking services.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

31. OPERATING SEGMENTS (continued)

(31.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

	(SR '000)					
2011	**Consumer**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**51,965,703**	**77,884,222**	**138,977,993**	**1,246,081**	**31,124,162**	**301,198,161**
Total liabilities	**150,042,367**	**71,637,882**	**18,022,999**	**261,540**	**25,648,119**	**265,612,907**
Fee income from banking services, net	**961,318**	**557,841**	**-**	**498,701**	**613,472**	**2,631,332**
Operating income	**4,757,149**	**2,010,452**	**3,001,865**	**521,236**	**1,847,692**	**12,138,394**
Operating expenses of which:	**2,754,451**	**976,287**	**332,078**	**406,773**	**1,335,447**	**5,805,036**
- Depreciation of property and equipment	**190,771**	**41,298**	**32,170**	**18,874**	**69,264**	**352,377**
- Impairment charge for credit losses, net	**412,237**	**399,998**	**-**	**-**	**221,082**	**1,033,317**
- Impairment charge on investments, net	**-**	**-**	**2,534**	**19,466**	**-**	**22,000**
- Impairment loss on goodwill and intangible assets	-	-	-	-	-	-
Net income (parent and non-controlling interests)	**2,022,090**	**981,723**	**2,606,760**	**131,860**	**363,686**	**6,106,119**

	(SR '000)					
2010	Consumer	Corporate	Treasury	Capital Market	International	Total
Total assets	45,329,287	76,063,835	131,821,120	1,339,773	27,817,977	282,371,992
Total liabilities	139,543,192	71,245,236	14,845,246	283,002	23,598,623	249,515,299
Fee income from banking services, net	892,214	511,695	9,509	491,507	582,933	2,487,858
Operating income	5,215,359	2,171,065	2,024,614	544,451	1,711,767	11,667,256
Operating expenses of which:	2,925,707	1,437,054	257,177	804,027	1,209,534	6,633,499
- Depreciation of property and equipment	181,979	40,155	26,078	19,697	67,247	335,156
- Impairment charge for credit losses, net	777,015	964,293	-	-	90,252	1,831,560
- Impairment charge on investments, net	-	(36,762)	9,312	80,333	-	52,883
- Impairment loss on goodwill and intangible assets	-	-	-	277,153	-	277,153
Net income (parent and non-controlling interests)	2,262,628	708,816	1,725,915	(278,846)	384,891	4,803,404

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31. OPERATING SEGMENTS (continued)

(31.2) The Group's credit exposure, by business segments, is as follows:

			(SR '000)			
2011	**Consumer**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**38,584,574**	**74,035,485**	**122,937,828**	**71,405**	**27,238,883**	**262,868,175**
Commitments and contingencies (credit equivalent)	**1,222,392**	**23,262,946**	**-**	**-**	**16,642,068**	**41,127,406**
Derivatives (credit equivalent)	**-**	**-**	**831,054**	**1,232**	**-**	**832,286**

			(SR '000)			
2010	Consumer	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	33,955,135	72,843,752	108,267,018	93,372	23,948,481	239,107,758
Commitments and contingencies (credit equivalent)	1,246,094	17,824,628	-	-	15,817,658	34,888,380
Derivatives (credit equivalent)	-	-	2,503,961	16,879	53,673	2,574,513

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA"s prescribed methodology.

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32. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products and loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group"s risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group"s credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group"s performance to developments affecting a particular customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (32.5). For details of the composition of the loans and advances refer to notes (7.4) and (32.1). Information on credit risk relating to derivative instruments is provided in notes (13) and (32.5) and for commitments and contingencies in note (20). The information on the Bank's total maximum credit exposure is given in note (32.4).

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Bank"s experience. These risk ratings are reviewed on a regular basis.

Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 32.2). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values.The Group holds real estate collateral against transfer of title deed (*ifrag*) as a collateral but due to the difficulty in siezing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Collateral generally is not held against due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group"s Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.15) for accounting policy of impairment of financial assets].

(32.1) Credit quality of financial assets (loans and advances and due from banks and other financial institutions)

The credit quality of loans and advances is managed using internal credit ratings and for due from banks & financial institutions is managed using external credit ratings. The table below shows the credit quality by class of asset.

(SR '000)

	Loans and Advances				Due from banks and other financial institutions	
2011	**Consumer and credit cards**	**Corporate**	**Others**	**Sub total**		**Total**
Performing:						
Neither past due nor impaired (performing)						
Level 1	-	61,988,950	2,570,649	64,559,599	11,563,365	76,122,964
Level 2	-	18,667,801	-	18,667,801	-	18,667,801
Level 3	-	4,749,174	-	4,749,174	-	4,749,174
Level 4	-	3,379,661	-	3,379,661	-	3,379,661
Standard - unrated	38,562,409	2,069,653	1,319,858	41,951,920	-	41,951,920
Total	38,562,409	90,855,239	3,890,507	133,308,155	11,563,365	144,871,520
Past due but not impaired (performing)						
Less than 30 days	1,266,575	841,947	662	2,109,184	-	2,109,184
30-59 days	236,019	859,924	4,588	1,100,531	-	1,100,531
60-90 days	137,918	345,864	33,206	516,988	-	516,988
Sub Total	1,640,512	2,047,735	38,456	3,726,703	-	3,726,703
Total performing	40,202,921	92,902,974	3,928,963	137,034,858	11,563,365	148,598,223
Less: portfolio (collective) provision	(663,862)	(1,348,144)	(32,888)	(2,044,894)	(1,875)	(2,046,769)
Net performing	39,539,059	91,554,830	3,896,075	134,989,964	11,561,490	146,551,454
Non-performing:						
Total non-performing	282,872	3,782,980	205,417	4,271,269	-	4,271,269
Less: specific provision	(197,829)	(3,579,281)	(194,627)	(3,971,737)	-	(3,971,737)
Net non-performing	85,043	203,699	10,790	299,532	-	299,532

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32. CREDIT RISK (continued)

(32.1) Credit quality of financial assets (loans and advances and due from banks and other financial institutions) (continued)

(SR '000)

2010	Loans and Advances: Consumer and credit cards	Loans and Advances: Corporate	Loans and Advances: Others	Loans and Advances: Sub total	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Level 1	-	62,988,958	-	62,988,958	11,848,306	74,837,264
Level 2	-	10,871,225	-	10,871,225	-	10,871,225
Level 3	-	9,606,556	-	9,606,556	-	9,606,556
Level 4	-	1,325,940	-	1,325,940	-	1,325,940
Standard - unrated	32,364,453	3,297,964	2,191,504	37,853,921	-	37,853,921
Total	32,364,453	88,090,643	2,191,504	122,646,600	11,848,306	134,494,906
Past due but not impaired (performing)						
Less than 30 days	1,852,684	906,187	23,211	2,782,082	-	2,782,082
30-59 days	456,686	290,947	25,343	772,976	-	772,976
60-90 days	155,611	114,218	-	269,829	-	269,829
Sub Total	2,464,981	1,311,352	48,554	3,824,887	-	3,824,887
Total performing	34,829,434	89,401,995	2,240,058	126,471,487	11,848,306	138,319,793
Less: portfolio (collective) provision	(570,775)	(1,008,505)	(30,248)	(1,609,528)	(1,875)	(1,611,403)
Net performing	34,258,659	88,393,490	2,209,810	124,861,959	11,846,431	136,708,390
Non-performing						
Total non-performing	477,954	4,347,543	337,113	5,162,610	-	5,162,610
Less: specific provision	(404,890)	(3,827,960)	(194,628)	(4,427,478)	-	(4,427,478)
Net non-performing	73,064	519,583	142,485	735,132	-	735,132

Standard - unrated loans mainly comprise consumer, credit cards, small businesses and private banking loans.

(32.2) Collateral

Fair value of collateral held by Bank against loans and advances by each category are as follows:

	2011 SR '000	2010 SR '000
Neither past due nor impaired	**37,658,460**	38,370,084
Past due but not impaired	**1,705,401**	1,503,451
Impaired	**498,275**	697,415
Total	**39,862,136**	40,570,950

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Bank with intent to dispose off in case of default by the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

32. CREDIT RISK (continued)

(32.3) Credit quality of financial assets (Investments)

The credit quality of investments (excluding investment in equities, hedge funds and externally managed portfolio, mutual funds and private equity funds) is managed using external credit ratings.

The table below shows the credit quality by class of asset using Moody's rating agency.

	Investments	
	2011	2010
	SR '000	SR '000
Performing:		
High grade (Aaa-Baa3)	**111,809,356**	97,020,331
Standard grade (Ba1-B2)	**1,665,582**	2,426,047
Sub-standard grade (B3-C)	**339,010**	235,543
Unrated	**185,463**	415,810
Total performing	**113,999,411**	100,097,731
Less: portfolio (collective) provision	**(453,085)**	(698,187)
Net performing	**113,546,326**	99,399,544
Non-performing:		
Total non-performing	**51,882**	383,334
Less: specific provision	**(51,882)**	(363,839)
Net non-performing (see note 6)	**-**	19,495
Total	**113,546,326**	99,419,039

The unrated investments comprise junior notes under structured credit.

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32. CREDIT RISK (continued) (32.4)

Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2011 **SR '000**	2010 SR '000
Assets		
Due from banks and other financial institutions (note 32.1)	**11,561,490**	11,846,431
Investments (note 32.3)	**113,546,326**	99,419,039
Loans and advances, net (note 32.1)	**135,289,496**	125,597,091
Other assets - margin deposits against derivatives and repos and accrued special commission income receivable (note 12)	**2,004,907**	1,935,668
Total assets	**262,402,219**	238,798,229
Contingent liabilities and commitments, net (notes 15,16 & 20.3)	**75,908,739**	68,602,418
Derivatives - positive fair value, net (note 13)	**465,956**	402,813
Total maximum exposure	**338,776,914**	307,803,460

(32.5) Counterparty analysis of the Group's investment and derivatives, net of provisions.

	(SR '000) Maximum exposure		
	Investment, net of provisions	**Derivatives financial instruments, (positive fair value, net)**	**Total**
2011			
Government and quasi Government	**110,918,711**	**738**	**110,919,449**
Corporate	**6,503,687**	**320,911**	**6,824,598**
Banks and other financial institutions	**3,066,770**	**127,268**	**3,194,038**
Others	-	**17,039**	**17,039**
Net maximum exposure (note 6 & 13)	**120,489,168**	**465,956**	**120,955,124**

	(SR '000) Maximum exposure		
	Investment, net of provisions	Derivatives financial instruments, (positive fair value, net)	Total
2010			
Government and quasi Government	95,952,404	12,977	95,965,381
Corporate	6,589,226	265,837	6,855,063
Banks and other financial institutions	5,523,619	123,128	5,646,747
Others	-	871	871
Net maximum exposure (note 6 & 13)	108,065,249	402,813	108,468,062

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33. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Group Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(33.1) MARKET RISK-TRADING PORTFOLIO

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading portfolios. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Management Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall trading position.

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31 DECEMBER 2011

33. MARKET RISK (continued)

(33.1) MARKET RISK-TRADING PORTFOLIO (continued)

The table below shows the VaR related information for the year ended 31 December 2011 and 2010 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2011	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 31 December 2011	**5**	**16**	**21**	**260,934**
Average VaR for 2011	**1,137**	**45**	**1,182**	**274,715**

	(SR '000) Held for Trading			
2010	Foreign exchange risk	Special commission risk	Overall risk	FVIS
VaR as at 31 December 2010	3,759	154	3,913	283,884
Average VaR for 2010	2,173	152	2,325	231,075

(33.2) MARKET RISK - NON TRADING BOOK

Market risk on non-trading book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(33.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group"s consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2011, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2011 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

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33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

2011	**Increase / Decrease in basis points**	**Sensitivity of special commission income**	**SR '000 Sensitivity of shareholder's equity (other reserves) within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Currency							
SR	**± 10**	± **38,929**	**-**	± **125**	± **764**	± **16,347**	± **17,236**
USD	**± 10**	± **18,592**	**-**	± **723**	± **28,518**	± **85,683**	± **114,924**

2010	Increase / Decrease in basis points	Sensitivity of special commission income	SR '000 Sensitivity of shareholder's equity (other reserves) within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10	± 63,664	-	± 88	± 1,196	± -	± 1,284
USD	± 10	± 16,429	-	± 167	± 27,404	± 54,009	± 81,580

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33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group"s exposure to special commission rate risks. Included in the table are the Group"s assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

	SR '000					
2011	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	7,657,947	-	-	-	17,044,077	24,702,024
Due from banks and other financial institutions	9,162,736	1,751,250	-	-	647,504	11,561,490
Investments, net	19,369,722	24,436,667	41,978,635	27,786,077	6,918,067	120,489,168
Loans and advances, net	30,748,318	55,095,523	46,135,515	1,822,205	1,487,935	135,289,496
Investment in associates, net	-	-	-	-	838,575	838,575
Other real estate, net	-	-	-	-	249,169	249,169
Property and equipment, net	-	-	-	-	2,317,353	2,317,353
Intangible assets, net	-	-	-	-	626,308	626,308
Goodwill, net	-	-	-	-	604,635	604,635
Other assets	-	-	-	-	4,519,943	4,519,943
Total assets	66,938,723	81,283,440	88,114,150	29,608,282	35,253,566	301,198,161
Liabilities and shareholders' equity						
Due to banks and other financial institutions	15,418,297	2,376,143	396,904	282,273	1,466,049	19,939,666
Customers' deposits	53,160,479	12,378,654	448,264	-	173,470,161	239,457,558
Other liabilities	-	-	-	-	6,215,683	6,215,683
Shareholders' equity attributable to equity holders of the parent	-	-	-	-	34,165,218	34,165,218
Non-controlling interest	-	-	-	-	1,420,036	1,420,036
Total liabilities and shareholders' equity	68,578,776	14,754,797	845,168	282,273	216,737,147	301,198,161
On-balance sheet gap	(1,640,053)	66,528,643	87,268,982	29,326,009	(181,483,581)	
Off-balance sheet gap	(643,160)	(699,640)	1,036,550	306,250	-	
Total special commission rate sensitivity gap	(2,283,213)	65,829,003	88,305,532	29,632,259	(181,483,581)	
Cumulative special commission rate sensitivity gap	(2,283,213)	63,545,790	151,851,322	181,483,581	-	

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33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

SR '000

2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	13,009,819	-	-	-	14,922,720	27,932,539
Due from banks and other financial institutions	9,204,522	-	-	-	2,641,909	11,846,431
Investments, net	29,084,119	1,763,842	43,698,880	23,383,245	10,135,163	108,065,249
Loans and advances, net	32,119,254	47,312,970	43,875,321	1,838,071	451,475	125,597,091
Investment in associates, net	-	-	-	-	827,465	827,465
Other real estate, net	-	-	-	-	279,665	279,665
Property and equipment, net	-	-	-	-	2,097,005	2,097,005
Intangible assets, net	-	-	-	-	922,677	922,677
Goodwill, net	-	-	-	-	734,744	734,744
Other assets	-	-	-	-	4,069,126	4,069,126
Total assets	83,417,714	49,076,812	87,574,201	25,221,316	37,081,949	282,371,992
Liabilities and shareholders' equity						
Due to banks and other financial institutions	11,407,769	1,162,461	-	1,042	1,760,426	14,331,698
Customers' deposits	64,345,415	11,362,405	220,087	6,720	153,225,554	229,160,181
Other liabilities	-	-	-	-	6,023,420	6,023,420
Shareholders' equity attributable to equity holders of the parent	-	-	-	-	31,272,258	31,272,258
Non-controlling interest	-	-	-	-	1,584,435	1,584,435
Total liabilities and shareholders' equity	75,753,184	12,524,866	220,087	7,762	193,866,093	282,371,992
On-balance sheet gap	7,664,530	36,551,946	87,354,114	25,213,554	(156,784,144)	
Off-balance sheet gap	(1,173,609)	416,214	851,145	(93,750)	-	
Total special commission rate sensitivity gap	6,490,921	36,968,160	88,205,259	25,119,804	(156,784,144)	
Cumulative special commission rate sensitivity gap	6,490,921	43,459,081	131,664,340	156,784,144	-	

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

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33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

At the year end, the Group had the following significant net exposures denominated in foreign currencies:

Currency	**2011 SR '000 Long (short)**	2010 SR '000 Long (short)
US Dollar	**2,148,100**	5,557,043
TRY	**4,073,197**	4,559,460

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2011 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2011 SR '000			2010 SR '000		
Currency	**Increase/ Decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ Decrease in currency rate in %	Effect on profit	Effect on equity
US Dollar	-	-	-	-	-	-
TRY	**± 10%**	**± 32,779**	**± 407,320**	± 10%	± 28,596	± 455,946

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33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments quoted in Tadawul and held as available-for-sale at 31 December 2011 and 2010, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	2011 SR '000		2010 SR '000	
Market index	**Increase / Decrease in market prices %**	**Effect on shareholders' equity (other reserves)**	Increase / Decrease in market prices %	Effect on shareholders' equity (other reserves)
Impact of change in market prices	± **10%**	± 211,182	± 10%	± 253,194

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34. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2011	2010
	%	%
As at 31 December	**40%**	41%
Average during the year	**45%**	39%

(34.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (34.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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34. LIQUIDITY RISK (continued)

(34.1) Analysis of financial liabilities by remaining contractual maturities (continued)

	SR '000					
Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2011						
Due to banks and other financial institutions	2,705,985	15,636,513	1,005,761	636,192	87,117	20,071,568
Customers' deposits	178,524,868	47,992,424	12,599,423	462,854	-	239,579,569
Derivative financial instruments (gross contractual amounts payable)	-	29,834,693	34,214,631	6,223,512	25,062	70,297,898
Total undiscounted financial liabilities	181,230,853	93,463,630	47,819,815	7,322,558	112,179	329,949,035

	SR '000					
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2010						
Due to banks and other financial institutions	2,273,594	11,092,367	1,171,752	1,114	-	14,538,827
Customers' deposits	154,109,405	64,217,822	11,415,587	225,685	7,708	229,976,207
Derivative financial instruments (gross contractual amounts payable)	-	26,587,110	20,627,451	1,184,975	13,055	48,412,591
Total undiscounted financial liabilities	156,382,999	101,897,299	33,214,790	1,411,774	20,763	292,927,625

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (20.3(a)).

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34. LIQUIDITY RISK (continued)

(34.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (34.1) above for the contractual undiscounted financial liabilities.

(SR '000)

2011	Less than 12 months: Less than 3 months	Less than 12 months: 3 to 12 months	Less than 12 months: Sub total	More than 1 year: 1 to 5 years	More than 1 year: Over 5 years	More than 1 year: Sub total	No-fixed maturity	Total
Assets								
Cash and balances with SAMA	8,347,784	896,882	9,244,666	2,763,450	12,693,908	15,457,358	-	24,702,024
Due from banks and other financial institutions	9,032,119	143,526	9,175,645	591,990	1,793,855	2,385,845	-	11,561,490
Investments, net	18,296,672	16,740,255	35,036,927	48,336,364	37,115,877	85,452,241	-	120,489,168
Loans and advances, net	25,401,246	48,051,381	73,452,627	37,238,946	24,429,638	61,668,584	168,285	135,289,496
Investment in associates, net	-	-	-	-	-	-	838,575	838,575
Other real estate, net	-	-	-	-	-	-	249,169	249,169
Property and equipment, net	-	-	-	-	-	-	2,317,353	2,317,353
Intangible assets, net	47,334	142,003	189,337	436,971	-	436,971	-	626,308
Goodwill, net	-	-	-	-	-	-	604,635	604,635
Other assets	318,836	473,915	792,751	361,274	559,108	920,382	2,806,810	4,519,943
Total assets	61,443,991	66,447,962	127,891,953	89,728,995	76,592,386	166,321,381	6,984,827	301,198,161
Liabilities and shareholders' equity								
Due to banks and other financial institutions	17,525,193	145,472	17,670,665	221,045	2,047,956	2,269,001	-	19,939,666
Customers' deposits	66,567,304	21,190,119	87,757,423	16,855,571	134,844,564	151,700,135	-	239,457,558
Other liabilities	751,586	326,191	1,077,777	247,967	-	247,967	4,889,939	6,215,683
Total liabilities	84,844,083	21,661,782	106,505,865	17,324,583	136,892,520	154,217,103	4,889,939	265,612,907
Total shareholders' equity	-	-	-	-	-	-	35,585,254	35,585,254
Total liabilities and shareholders' equity	84,844,083	21,661,782	106,505,865	17,324,583	136,892,520	154,217,103	40,475,193	301,198,161

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34. LIQUIDITY RISK (continued)

(34.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(SR '000)

2010	Less than 12 months			More than 1 year				
	Less than 3 months	3 to 12 months	Sub total	1 to 5 years	Over 5 years	Sub total	No-fixed maturity	Total
Assets								
Cash and balances with SAMA	13,617,502	752,104	14,369,606	2,674,717	10,888,216	13,562,933	-	27,932,539
Due from banks and other financial institutions	7,991,541	197,053	8,188,594	889,210	2,768,627	3,657,837	-	11,846,431
Investments, net	16,591,208	15,964,459	32,555,667	42,823,829	32,685,753	75,509,582	-	108,065,249
Loans and advances, net	22,081,290	43,193,191	65,274,481	27,817,684	32,504,926	60,322,610	-	125,597,091
Investment in associates, net	-	-	-	-	-	-	827,465	827,465
Other real estate, net	-	-	-	-	-	-	279,665	279,665
Property and equipment, net	-	-	-	-	-	-	2,097,005	2,097,005
Intangible assets, net	60,159	137,721	197,880	709,501	15,296	724,797	-	922,677
Goodwill, net	-	-	-	-	-	-	734,744	734,744
Other assets	287,995	421,889	709,884	329,567	546,284	875,851	2,483,391	4,069,126
Total assets	60,629,695	60,666,417	121,296,112	75,244,508	79,409,102	154,653,610	6,422,270	282,371,992
Liabilities and shareholders' equity								
Due to banks and other financial institutions	11,998,754	160,899	12,159,653	176,971	1,995,074	2,172,045	-	14,331,698
Customers' deposits	78,494,657	22,775,885	101,270,542	14,209,960	113,679,679	127,889,639	-	229,160,181
Other liabilities	594,942	255,288	850,230	199,781	-	199,781	4,973,409	6,023,420
Total liabilities	91,088,353	23,192,072	114,280,425	14,586,712	115,674,753	130,261,465	4,973,409	249,515,299
Total shareholders' equity	-	-	-	-	-	-	32,856,693	32,856,693
Total liabilities and shareholders' equity	91,088,353	23,192,072	114,280,425	14,586,712	115,674,753	130,261,465	37,830,102	282,371,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(35.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

			(SR '000)			
2011	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Assets						
Cash and balances with SAMA	24,107,818	2,720	134,938	152,118	304,430	24,702,024
Due from banks and other financial institutions	3,383,098	3,404,908	1,021,243	3,198,371	553,870	11,561,490
Investments, net	58,020,596	17,202,791	26,328,133	1,194,905	17,742,743	120,489,168
Loans and advances, net	112,396,198	130,944	896,033	20,225,997	1,640,324	135,289,496
Investment in associates, net	838,575	-	-		-	838,575
Intangible assets, net	-	-	-	626,308	-	626,308
Goodwill, net	-	-	-	604,635	-	604,635
Total	198,746,285	20,741,363	28,380,347	26,002,334	20,241,367	294,111,696
Liabilities						
Due to banks and other financial institutions	193,561	3,534,141	1,559,734	2,234,127	12,418,103	19,939,666
Customers' deposits	219,674,421	488,086	24,456	19,197,485	73,110	239,457,558
Total	219,867,982	4,022,227	1,584,190	21,431,612	12,491,213	259,397,224
Commitments and contingencies (note 20.3)	47,031,225	1,400,916	1,641,469	13,775,039	15,328,706	79,177,355
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	24,348,492	731,219	856,777	7,189,985	8,000,933	41,127,406
Derivatives	294,535	175,482	298,678	63,200	391	832,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

2010	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
	(SR '000)					
Assets						
Cash and balances with SAMA	27,327,345	2,107	401,984	142,359	58,744	27,932,539
Due from banks and other financial institutions	4,287,911	2,320,337	1,182,921	3,887,525	167,737	11,846,431
Investments, net	53,583,601	13,627,563	23,063,359	1,389,294	16,401,432	108,065,249
Loans and advances, net	106,078,645	130,803	65,625	19,134,515	187,503	125,597,091
Investment in associates, net	827,465	-	-	-	-	827,465
Intangible assets, net	-	-	-	922,677	-	922,677
Goodwill, net	-	-	-	734,744	-	734,744
Total	192,104,967	16,080,810	24,713,889	26,211,114	16,815,416	275,926,196
Liabilities						
Due to banks and other financial institutions	798,485	5,731,533	1,877,608	318,210	5,605,862	14,331,698
Customers' deposits	208,247,754	303,313	24,410	20,550,489	34,215	229,160,181
Total	209,046,239	6,034,846	1,902,018	20,868,699	5,640,077	243,491,879
Commitments and contingencies (note 20.3)	41,006,400	2,597,584	1,634,046	10,300,346	16,134,455	71,672,831
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	19,194,131	1,086,442	1,089,497	5,883,173	7,635,137	34,888,380
Derivatives	1,220,382	51,995	1,045,044	53,673	203,419	2,574,513

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA"s prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(35.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

(SR '000)

2011	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Non performing loans and advances	**3,749,143**	**37,500**	**-**	**484,626**	**-**	**4,271,269**
Less: specific provision	**(3,598,916)**	**(37,500)**	**-**	**(335,321)**	**-**	**(3,971,737)**
Net	**150,227**	**-**	**-**	**149,305**	**-**	**299,532**
2010						
Non performing loans and advances	4,540,055	37,500	-	585,055	-	5,162,610
Less: specific provision	(4,011,730)	(37,500)	-	(378,248)	-	(4,427,478)
Net	528,325	-	-	206,807	-	735,132

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm‟s length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for loans and advances and customers‟ deposits which are carried at cost as well as investments held at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortized cost and held to maturity investments are based on quoted market prices, when available, third party quotes or valuation models in the case of certain fixed rate securities, structured credit and investments where no quoted prices are available. The fair values of these investments are disclosed in note (6).

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

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37. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1: quoted prices in active markets for the same instrument.

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

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

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

		(SR '000)		
2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale:				
Debt securities	**26,298,008**	**2,451,470**	**24,521**	**28,773,999**
Structured credit	**-**	**-**	**168,063**	**168,063**
Mutual funds	**-**	**-**	**172**	**172**
Quoted equities	**2,089,815**	**-**	**-**	**2,089,815**
Unquoted equities	**-**	**-**	**72,368**	**72,368**
Private equity funds	**-**		**1,162,330**	**1,162,330**
Sub total	**28,387,823**	**2,451,470**	**1,427,454**	**32,266,747**
Held for trading:				
Mutual funds	**508,510**	**-**	**-**	**508,510**
Fair value through income statement (FVIS):				
Hedge funds and externally managed portfolio	**-**	**2,510,030**	**599,615**	**3,109,645**
Total	**28,896,333**	**4,961,500**	**2,027,069**	**35,884,902**
Derivative financial instruments				
Financial assets	**-**	**396,534**	**69,422**	**465,956**
Financial liabilities	**-**	**712,584**	**69,657**	**782,241**

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

	(SR '000)			
2010	Level 1	Level 2	Level 3	Total
Financial assets available for sale:				
Debt securities	23,134,740	3,533,519	79,939	26,748,198
Structured credit	-	-	125,682	125,682
Mutual funds	-	-	172	172
Quoted equities	2,531,944	-	-	2,531,944
Unquoted equities	-	-	71,243	71,243
Private equity funds	-	-	1,007,838	1,007,838
Sub total	25,666,684	3,533,519	1,284,874	30,485,077
Held for trading:				
Mutual funds	587,110	-	-	587,110
Fair value through income statement (FVIS):				
Hedge funds and externally managed portfolio	-	2,936,581	1,511,420	4,448,001
Total	26,253,794	6,470,100	2,796,294	35,520,188
Derivative financial instruments				
Financial assets	-	389,911	12,902	402,813
Financial liabilities	-	532,727	22,340	555,067

Movement of level 3 is as follows:

	2011 SR '000	2010 SR '000
Balance at beginning of the year	**2,796,294**	3,904,034
Total gains/(losses) in consolidated income statement and comprehensive income	**9,989**	(63,646)
Purchases	**242,341**	550,890
(Sales)	**(729,130)**	(1,563,563)
(Settlements)	**(3,036)**	-
Transfer (from) level 3	**(289,388)**	(31,421)
Balance at end of the year	**2,027,070**	2,796,294

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38. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm"s length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(38.1) The balances as at 31 December included in the financial statements are as follows:

	2011 **SR '000**	2010 SR '000
Group's Board of Directors and senior executives:		
Loans and advances	**384,407**	406,945
Customers' deposits	**39,687**	53,322
Commitment and contingencies	**1,563**	2,671
Other liabilities - end of service benefits	**29,124**	28,020
Major shareholders:		
Customers' deposits	**13,712,073**	12,847,614
Bank's mutual funds:		
Investments	**508,505**	586,110
Customers' deposits	**431,340**	2,558,053

Major shareholders represent shareholdings of more than 5% of the Bank"s issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities which they have control, joint control or significant influence over these entities.

(38.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2011 **SR '000**	2010 SR '000
Special commission income	**7,600**	5,753
Special commission expense	**90,763**	170,446

Bank's Board of Directors include the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee); their remunerations, allowances and expenses are disclosed in the Board of Directors' report. For Bank's senior executives compensation, refer to note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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39. GROUP's STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

2011

Categories of employees	Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)
Senior executives	**15**	**29,871**	**44,181**
Employees engaged in risk taking activities	**208**	**77,807**	**15,130**
Employees engaged in control functions	**251**	**81,198**	**17,087**
Other employees	**5,437**	**884,185**	**201,608**
Outsourced employees (engaged in risk taking activities)	**-**	**-**	**-**
Subsidiaries	**3,720**	**496,023**	**102,463**
Group total	**9,631**	**1,569,084**	**380,469**

All forms of payment for fixed and variable compensation are in cash, except for part of NCB Capital's variable compensation amounting to SR 20.1 million, which is settled in equities. The two basic salaries of SR 93.4 million paid to Saudi staff pursuant to The Royal Award are excluded from the above compensation.

The Bank's senior executives are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2011 is SR 375.8 million (2010: SR 365 million) which will be paid to employees during quarter 1 of 2012.

40. CAPITAL ADEQUACY

(40.1) Capital adequacy ratio

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

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

SAMA requires to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risk which comprise the Pillar 1 minimum capital requirements.

	Eligible capital		**Capital Adequacy Ratio (Pillar 1)**	
	2011 SR '000	2010 SR '000	**2011 %**	2010 %
Core capital (Tier 1)	**34,318,125**	31,174,410	**17.2**	17.1
Supplementary capital (Tier 2)	**2,008,707**	1,584,662		
Core and supplementary capital (Tier 1 and Tier 2)	**36,326,832**	32,759,072	**18.2**	18.0

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40. CAPITAL ADEQUACY (continued)

(40.1) Capital adequacy ratio (continued)

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

The Group has implemented Basel II effective 1 January 2008 as stipulated by SAMA. The Group uses the Standardized approach of Basel II 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 Division is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel II requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

	Risk weighted assets	
	2011	2010
	SR '000	SR '000
Credit risk	**169,732,836**	154,962,437
Operational risk	**22,107,907**	19,205,066
Market risk	**7,809,547**	8,261,749
Total Pillar-1 - risk weighted assets	**199,650,290**	182,429,252

(40.2) BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Group's website **www.alahli.com** as required by the Saudi Arabian Monetary Agency (SAMA).

41. INVESTMENT SERVICES

The Bank offers investment management services to its customers through NCB capital. Assets under management outstanding at 31 December 2011 amounted to SR 33,963 million (2010: SR 41,645 million)

42. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

43. ACQUISITION OF AVAILABLE FOR SALE INVESTMENTS (EQUITIES)

The Bank acquired equities during 2009 and 2010 from a customer as a result of partial set-off of debt.

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44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

Effective from periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-July-2012	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	The amendments require that an entity present separately, the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss.
1-January-2013	IFRS 9 - Financial Instruments	Standard issued in November 2009 (IFRS 9 (2009)) which is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity‟s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The IASB issued exposure draft (ED) "Mandatory effective date of IFRS 9" that proposes to move the mandatory effective date to periods beginning on or after 1 January 2015 with early application continue to be permitted.
1-January-2013	IFRS 9 - Financial Instruments	Standard issued in October 2010 (IFRS 9 (2010)) which adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives. Also refer to ED on Mandatory effective date, as stated above.
1-January-2013	IFRS 10 - Consolidated Financial Statements	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: • it is exposed or has rights to variable returns from its involvement with that investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. Control is re-assessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities.

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44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Effective from periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-January-2013	IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate: • the nature of, and risks associated with, an entity"s interests in other entities; and • the effects of those interests on the entity"s financial position, financial performance and cash flows.
1-January-2013	IFRS - 13 Fair Value Measurement	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs.
1-January-2013	IAS - 27 Separate Financial Statements (2011)	IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.
1-January-2013	IAS 28 Investments in Associates and Joint Ventures (2011)	IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments: • IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and • on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

45. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 31 January 2012 (corresponding to 8 Rabi Al-Awal 1433H).

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