



KPMG Al Fozan & Partners
Certified Public Accountants

Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group") as September 30, 2016, the related interim consolidated statements of income and comprehensive income for the three and nine month periods then ended, the related interim consolidated statements of changes in equity and cash flows for the nine month period then ended and the notes from (1) to (18) which form an integral part of these interim condensed consolidated financial statements. We have neither reviewed note (18), nor the information related to "Disclosures under BASEL III framework" cross referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA") and International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.

Report on Review of Interim Condensed Consolidated Financial Statements (continued)

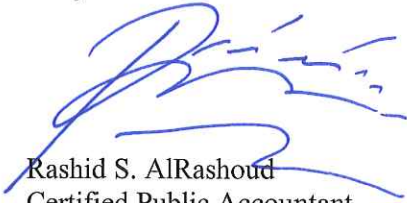
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company) (continued)

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (15) of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

Ernst & Young

P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia



Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



KPMG Al Fozan & Partners
Certified Public Accountants

P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia



Abdullah Hamad Al Fozan
Registration No. 348

23 Muhurram 1438H
(24 October 2016)



ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(SAR'000)

As at	Notes	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
ASSETS				
Cash and balances with SAMA		12,836,104	10,428,291	14,264,295
Due from banks and other financial institutions		7,630,949	5,575,099	2,201,709
Positive fair value derivatives	8	295,062	290,158	277,817
Investments, net	5	25,665,602	33,294,299	30,786,644
Loans and advances, net	6	115,624,770	115,655,825	113,284,059
Investments in associates		610,549	531,617	525,101
Other real estate		136,634	159,893	159,893
Investment property, net		1,657,698	1,675,866	-
Property and equipment, net		1,883,245	1,945,420	1,919,103
Other assets		922,838	864,805	1,444,577
Total assets		167,263,451	170,421,273	164,863,198
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		9,656,198	5,673,113	5,012,939
Negative fair value derivatives	8	330,980	338,949	432,564
Customers' deposits	7	128,235,909	135,761,194	132,598,531
Other liabilities		3,381,465	4,004,894	3,217,870
Debt securities and sukuk		2,032,326	2,011,270	1,692,228
Total liabilities		143,636,878	147,789,420	142,954,132
Equity attributed to equity holders of the Bank				
Share capital	12	10,000,000	10,000,000	10,000,000
Statutory reserve		8,732,000	8,732,000	7,990,000
Other reserves		(172,753)	102,051	177,402
Retained earnings		4,348,792	2,509,946	3,702,548
Proposed dividends		-	550,000	-
Total equity attributed to equity holders of the Bank		22,908,039	21,893,997	21,869,950
Non-controlling interest		718,534	737,856	39,116
Total equity		23,626,573	22,631,853	21,909,066
Total liabilities and equity		167,263,451	170,421,273	164,863,198

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(SAR'000)

	For the three months period ended		For the nine months period ended		
	Note	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Special commission income		1,489,321	1,122,351	4,196,764	3,308,055
Special commission expense		422,361	127,814	1,081,904	363,998
Net special commission income		1,066,960	994,537	3,114,860	2,944,057
Fees and commission income, net		251,119	304,284	818,459	1,033,862
Exchange income, net		110,176	134,074	355,544	394,521
Unrealized gains/(losses) on FVIS financial instruments, net		2,847	(4,642)	(2,966)	(4,337)
Trading (loss)/income, net		(1,320)	1,016	6,633	(6,946)
Dividend income		16,052	16,411	45,611	43,166
Gains on non-trading investments, net		24,640	-	47,923	54
Other operating income, net		39,890	24,603	145,680	71,046
Total operating income		1,510,364	1,470,283	4,531,744	4,475,423
Salaries and employee related expenses		317,338	326,729	978,824	1,029,942
Rent and premises related expenses		43,444	41,886	125,311	118,300
Depreciation and amortization		57,783	49,989	176,048	145,974
Other general and administrative expenses		132,469	122,681	408,486	394,550
Impairment charges for credit losses, net		212,227	130,608	534,018	403,450
Impairment charges for investments, net		28,792	43,868	37,645	43,455
Total operating expenses		792,053	715,761	2,260,332	2,135,671
Net operating income		718,311	754,522	2,271,412	2,339,752
Share in earnings of associates, net		6,377	9,726	26,432	30,985
Net income for the period		724,688	764,248	2,297,844	2,370,737
Attributable to:					
Equity holders of the Bank		721,671	764,202	2,288,846	2,370,067
Non-controlling interest		3,017	46	8,998	670
Net income for the period		724,688	764,248	2,297,844	2,370,737
Basic and diluted earnings (in SAR per share)	12	0.72	0.76	2.30	2.37

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)
(SAR'000)

	<u>For the three months period ended</u>		<u>For the nine months period ended</u>	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Net income for the period	724,688	764,248	2,297,844	2,370,737
Other comprehensive income:				
Items that are or may be reclassified to interim consolidated statement of income in subsequent periods				
Available for sale financial assets:				
- Net changes in fair value	(125,507)	(318,366)	(264,526)	(146,263)
- Transfers to interim consolidated statement of income	4,152	43,868	(10,278)	43,814
Cash flow hedges:				
- Transfers to interim consolidated statement of income	-	-	-	1,019
Total other comprehensive income for the period	(121,355)	(274,498)	(274,804)	(101,430)
Total comprehensive income for the period	603,333	489,750	2,023,040	2,269,307
Attributable to:				
Equity holders of the Bank	600,316	489,704	2,014,042	2,268,637
Non-controlling interest	3,017	46	8,998	670
Total comprehensive income for the period	603,333	489,750	2,023,040	2,269,307

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended September 30, 2016 and 2015
(Unaudited)
(SAR'000)

	Note	Attributable to equity holders of the Bank							Non-controlling interest	Total equity
		Share capital	Statutory reserve	Available for sale financial assets	Cash flow hedges	Retained earnings	Proposed dividends	Total		
2016										
Balance at the beginning of the period		10,000,000	8,732,000	102,051	-	2,509,946	550,000	21,893,997	737,856	22,631,853
Changes in equity for the period:										
Net changes in fair values of available for sale investments				(264,526)	-	-	-	(264,526)	-	(264,526)
Transfers to interim consolidated statement of income				(10,278)	-	-	-	(10,278)	-	(10,278)
Net income for the period				-	-	2,288,846	-	2,288,846	8,998	2,297,844
Total other comprehensive income for the period		-	-	(274,804)	-	2,288,846	-	2,014,042	8,998	2,023,040
Distributions from a subsidiary		-	-	-	-	-	-	-	(28,320)	(28,320)
2015 final dividends paid		-	-	-	-	-	(550,000)	(550,000)	-	(550,000)
2016 interim dividends	13	-	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Balance at the end of the period		10,000,000	8,732,000	(172,753)	-	4,348,792	-	22,908,039	718,534	23,626,573

	Note	Attributable to equity holders of the Bank							Non-controlling interest	Total equity
		Share capital	Statutory reserve	Available for sale financial assets	Cash flow hedges	Retained earnings	Proposed dividends	Total		
2015										
Balance at the beginning of the period		10,000,000	7,990,000	279,851	(1,019)	1,782,481	550,000	20,601,313	38,446	20,639,759
Changes in equity for the period:										
Net changes in fair values of available for sale investments				(146,263)	-	-	-	(146,263)	-	(146,263)
Transfers to interim consolidated statement of income				43,814	1,019	-	-	44,833	-	44,833
Net income for the period				-	-	2,370,067	-	2,370,067	670	2,370,737
Total other comprehensive income for the period		-	-	(102,449)	1,019	2,370,067	-	2,268,637	670	2,269,307
Distributions from a subsidiary		-	-	-	-	-	-	-	-	-
2014 final dividends paid		-	-	-	-	-	(550,000)	(550,000)	-	(550,000)
2015 interim dividends	13	-	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Balance at the end of the period		10,000,000	7,990,000	177,402	-	3,702,548	-	21,869,950	39,116	21,909,066

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended
(Unaudited)
(SAR'000)

	<u>Note</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
<u>OPERATING ACTIVITIES</u>			
Net income for the period		2,297,844	2,370,737
Adjustments to reconcile net income to net cash used in operating activities for the period:			
Accretion of discounts on non-trading investments, net		(11,733)	(66,315)
Gains on non-trading investments, net		(47,923)	(54)
Unrealized losses on revaluation of FVIS investment, net		2,966	4,337
Dividend income		(45,611)	(43,166)
Depreciation of investment property		18,600	-
Depreciation and amortization of property and equipment		176,048	145,974
Loss on disposal of property and equipment, net		214	1,730
Share in earnings of associates, net		(26,432)	(30,985)
Impairment charges for investments, net		37,645	43,455
Impairment charges for credit losses, net		534,018	403,450
		2,935,636	2,829,163
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		340,095	(661,947)
Investments held at FVIS (including trading investments)		1,317,433	1,586
Positive fair value derivatives		(4,904)	(121,147)
Loans and advances		(543,360)	(9,513,855)
Other assets		(58,033)	(496,645)
Other real estate		23,259	-
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		3,983,085	(4,003,801)
Negative fair value derivatives		(7,969)	192,251
Customers' deposits		(7,525,285)	2,858,964
Other liabilities		(644,215)	(347,064)
Net cash used in operating activities		(184,258)	(9,262,495)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		20,666,494	16,745,086
Purchase of non-trading investments		(14,558,538)	(13,595,351)
Investment in associate		(52,500)	-
Purchase of investment property		(432)	-
Purchase of property and equipment		(118,147)	(589,190)
Proceeds from sale of property and equipment		4,060	268,320
Dividend received		45,611	43,166
Net cash from investing activities		5,986,548	2,872,031
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(991,268)	(993,702)
Debt securities and Sukuk		21,056	187
Non-controlling interest		(28,320)	-
Net cash used in financing activities		(998,532)	(993,515)
Increase / (decrease) in cash and cash equivalents		4,803,758	(7,383,979)
Cash and cash equivalents at the beginning of the period		8,680,518	16,748,871
Cash and cash equivalents at the end of the period	10	13,484,276	9,364,892
Special commission received during the period		4,134,550	3,205,229
Special commission paid during the period		(1,077,136)	(341,814)
<u>Supplemental non-cash information</u>			
Net changes in fair value of available for sale financial assets		(264,526)	(146,263)

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements
For the nine months ended September 30, 2016 and 2015
(SAR'000)

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi'ul Awwal 1, 1400H (corresponding to January 19, 1980) through its 151 branches (2015: 152 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides its customers non-commission based banking products which are approved and supervised by an independent Shari'ah Board established by the Bank.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as "the Group"):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary (directly and indirectly) a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428 (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiary commenced its operations effective on Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008. On Muharram 19, 1436 (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437 H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity.

Arabian Heavy Equipment Leasing Company (AHEL)

An 87.5% owned subsidiary incorporated in the Kingdom, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to reach 87.5%.

Arab Insurance Agency

A Saudi limited liability company established during 2013 as a wholly owned subsidiary, registered in the Kingdom under the commercial registration no. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Agency (SAMA) to start its activities on Jumada I 5, 1435H (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

ANBI Business Gate Fund (the Fund)

The Bank owns indirectly 25.47% of the Fund, which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from date of closure of first offering on January 11, 2015. CMA has been informed of the offering of the Fund through letter number 8/14//411 dated Shawwal 9, 1435H (corresponding to August 5, 2014). The Fund's purpose is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term. The Group has significant aggregate economic interest in the Fund and manages the Fund through an agreement between Arab National Investment Company (the "Fund Manager") and the Fund Investors (the "Unitholders"). As a result, management has concluded that the Group has effective control of the Fund and started consolidating the Fund's financial statements effective December 31, 2015, the date of effective control.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

2. Basis of preparation

a) Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by SAMA and International Accounting Standard No. 34 – “Interim Financial Reporting”. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law, provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank’s by Article of Association.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2015.

b) Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at cost and are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

c) Functional and presentation currency

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where indicated otherwise.

3. Basis of consolidation

The interim condensed consolidated financial statements comprise the interim condensed financial statements of the Bank and its subsidiaries (collectively referred to as the Group). The interim condensed financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries where necessary to align them with the Bank’s financial statements.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The interim condensed financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date that control ceases.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- Contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights granted by equity instruments such as shares.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

3. Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the interim consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in Other Comprehensive Income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the interim consolidated income statement and within equity in the interim consolidated statement of financial position, separately from the equity holders of the Bank. 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. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized 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.

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition.

All intra-group assets and liabilities, equity, income and expenses relating to transactions between subsidiaries of the Group are eliminated in full on consolidation.

4. Significant Accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015 except for the adoption of the following new standard and amendments to existing standards mentioned below which have had no significant financial impact on the interim condensed consolidated financial statements of the Group in the current or prior periods and is expected to have no significant effect in future periods:

a) New Standard

IFRS 14 – “Regulatory Deferral Accounts”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

4. Significant Accounting policies (continued)

b) Amendments to existing standards

Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

- IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”.
- IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- IAS 34 – “Interim Financial Reporting” – amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

5. Investments, net

Investments are classified as follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
Trading investments	-	1,312,480	-
Designated as fair value through income statement (FVIS)	158	8,077	8,612
Available for sale	9,607,453	11,226,490	11,328,064
Held at amortized cost, net	16,057,991	20,747,252	19,449,968
Total	25,665,602	33,294,299	30,786,644

6. Loans and advances, net

Loans and advances (all held at amortized cost) comprise the following:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
Commercial loans and overdrafts	90,771,481	89,815,308	88,013,779
Consumer loans	25,965,434	26,957,177	26,281,043
Credit cards	524,360	415,931	420,658
Performing loans and advances	117,261,275	117,188,416	114,715,480
Non-performing loans and advances, net	1,029,804	1,229,583	1,209,482
Gross loans and advances	118,291,079	118,417,999	115,924,962
Impairment charges for credit losses, net	(2,666,309)	(2,762,174)	(2,640,903)
Loans and advances, net	115,624,770	115,655,825	113,284,059

7. Customers' deposits

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
Demand	64,437,462	66,264,114	70,183,030
Time	60,594,766	63,902,499	58,353,106
Saving	77,107	107,820	109,673
Other	3,126,574	5,486,761	3,952,722
Total	128,235,909	135,761,194	132,598,531

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

8. Derivatives

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

	September 30, 2016 (Unaudited)			December 31, 2015 (Audited)			September 30, 2015 (Unaudited)		
	Positive Fair Value	Negative Fair Value	Notional Amount	Positive Fair Value	Negative Fair Value	Notional Amount	Positive Fair Value	Negative Fair Value	Notional Amount
Held for trading:									
Commission rate and cross currency swaps	77,511	69,708	7,530,832	29,825	18,952	7,483,969	49,737	39,234	7,193,939
Commission rate futures and options	12,232	7,287	3,924,932	8,169	6,879	2,261,124	11,381	9,943	2,261,370
Forward foreign exchange and commodity contracts	106,870	67,400	12,780,320	96,476	67,783	6,484,658	124,515	91,165	12,872,454
Currency and commodity options	48,330	46,944	10,147,959	145,528	136,047	16,643,582	91,518	83,608	16,771,700
Held as fair value hedges:									
Commission rate swaps	50,119	139,641	10,957,699	10,160	109,288	13,132,446	666	208,614	10,295,642
Total	295,062	330,980	45,341,742	290,158	338,949	46,005,779	277,817	432,564	49,395,105

Derivatives have been disclosed at gross amounts as at the date of the interim consolidated statement of financial position, and have not been netted off by cash margins amounting to SAR 55,368 thousand (December 31, 2015: SAR 69,969 thousand, and September 30, 2015: SAR 224,096 thousand).

9. Credit related commitments and contingencies

The Group's consolidated credit related commitments and contingencies are as follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
Letters of credit	4,377,829	4,781,675	5,561,999
Letters of guarantee	25,378,802	26,656,422	26,287,595
Acceptances	1,381,274	2,168,914	2,294,810
Irrevocable commitments to extend credit	2,730,537	2,427,668	2,091,753
Other	103,580	111,731	117,035
Total	33,972,022	36,146,410	36,353,192

The unutilized portion of non-firm commitments as at September 30, 2016 which can be revoked unilaterally at any time by the Bank, amounts SAR 17,684 million (December 31, 2015: SAR 21,517 million and September 30, 2015: SAR 20,807 million).

10. Cash and cash equivalents

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	5,853,327	3,105,419	7,163,183
Due from banks and other financial institutions maturing within 90 days of the acquisition date	7,630,949	5,575,099	2,201,709
Total	13,484,276	8,680,518	9,364,892

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

11. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer in order to allocate resources to segments and to assess its performance.

For management purposes, the Group is organized into the following major operating segments:

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch.

Treasury

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

Investment and brokerage services

Investment management services and asset management activities related to dealing, managing, arranging and advising, and custody of securities.

Other

Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head Office and other supporting departments.

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. Revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated income statement. Segment assets and liabilities comprise operating assets and liabilities.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London. However, total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall interim condensed consolidated financial statements.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2015.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

11. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at September 30, 2016 and 2015, its total interim consolidated operating income, expenses and net income for the nine months then ended, by operating segments, are as follows:

September 30, 2016 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,323,805	80,677,825	42,457,518	1,729,352	2,074,951	167,263,451
Investments in associates	-	-	-	-	610,549	610,549
Total liabilities	68,525,020	63,249,985	11,684,680	136,351	40,842	143,636,878
Net Special commission income	1,215,787	1,150,393	605,014	8,808	134,858	3,114,860
Operating income / (loss) from external customers	1,677,428	2,797,519	(173,671)	125,539	104,929	4,531,744
Intersegment operating income/(expense)	(91,933)	(1,239,574)	1,205,432	5	126,070	-
Total operating income	1,585,495	1,557,945	1,031,761	125,544	230,999	4,531,744
Impairment charges for credit losses, net	295,292	238,726	-	-	-	534,018
Impairment charges for investments, net	-	-	37,645	-	-	37,645
Depreciation and amortization	98,091	2,546	2,668	2,994	69,749	176,048
Total operating expenses	1,381,056	629,564	115,290	68,951	65,471	2,260,332
Share in earnings of associates, net	-	-	-	-	26,432	26,432
Net income attributed to non-controlling interest	-	-	-	-	8,998	8,998
Net income attributed to equity holders of the Bank	204,438	928,382	916,470	56,593	182,963	2,288,846
September 30, 2015 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,901,010	80,466,611	42,058,635	294,863	3,142,079	164,863,198
Investments in associates	-	-	-	-	525,101	525,101
Total liabilities	70,293,102	64,574,178	7,145,996	45,717	895,139	142,954,132
Net Special commission income	1,298,423	1,324,889	237,756	2,210	80,779	2,944,057
Operating income from external customers	1,768,589	2,197,693	297,387	100,209	111,545	4,475,423
Intersegment operating income/(expense)	29,114	(463,886)	355,561	(6)	79,217	-
Total operating income	1,797,703	1,733,807	652,948	100,203	190,762	4,475,423
Impairment charges for credit losses, net	211,213	192,237	-	-	-	403,450
Impairment charges for investments, net	-	-	43,455	-	-	43,455
Depreciation and amortization	89,347	1,542	2,605	2,993	49,487	145,974
Total operating expenses	1,313,340	591,447	111,649	57,810	61,425	2,135,671
Share in earnings of associates, net	-	-	-	-	30,985	30,985
Net income attributed to non-controlling interest	-	-	-	-	670	670
Net income attributed to equity holders of the Bank	484,363	1,142,360	541,299	42,393	159,652	2,370,067

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)
(Unaudited)

12. Share capital and earnings per share

At September 30, 2016, the Bank has 1,000 million shares of SAR 10 each issued and outstanding (December 31, 2015 and September 30, 2015: the same).

Basic and diluted earnings per share for the periods ended September 30, 2016 and 2015 are calculated by dividing the net income for the period attributable to equity holders of the Bank by 1,000 million shares. The diluted earnings per share is the same as the basic earnings per share.

13. Interim Dividend

The Board of Directors has approved an interim dividend of SAR 450 million for distribution to the shareholders from the net income for the nine month period ended 30 September 2016 (30 September 2015: SAR 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.45 per share, net.

14. Fair values of financial assets and liabilities

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

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the interim condensed consolidated financial statements.

Determination of fair value and fair value hierarchy

The Bank 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 (i.e., without modification or repacking);

Level 2: quoted prices in active markets for similar assets and liabilities or other 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.

a. Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets

September 30, 2016 (Unaudited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Trading investments	-	-	-	-	-
Designated as FVIS investments	158	-	158	-	158
Available for sale investments	9,607,453	8,061,092	1,521,033	25,328	9,607,453
Positive fair value derivatives	295,062	-	295,062	-	295,062
Financial assets not measured at fair value					
Due from banks and other financial institutions	7,630,949	-	-	-	7,630,949
Other investments held at amortised cost	16,057,991	-	-	-	15,834,199
Loans and advances	115,624,770	-	-	-	115,969,699

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

14. Fair values of financial assets and liabilities (continued)

a. Carrying amounts and fair value (continued)

December 31, 2015 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Trading investments	1,312,480	1,312,480	-	-	1,312,480
Designated as FVIS investments	8,077	-	8,077	-	8,077
Available for sale investments	11,226,490	9,486,872	1,653,824	85,794	11,226,490
Positive fair value derivatives	290,158	-	290,158	-	290,158
Financial assets not measured at fair value					
Due from banks and other financial institutions	5,575,099	-	-	-	5,575,099
Other investments held at amortised cost	20,747,252	-	-	-	20,658,874
Loans and advances	115,655,825	-	-	-	117,035,320

Financial Liabilities

September 30, 2016 (Unaudited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value derivatives	330,980	-	330,980	-	330,980
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	9,656,198	-	-	-	9,656,198
Customers' Deposits	128,235,909	-	-	-	128,235,909
Sukuk	2,032,326	-	-	-	1,838,298

December 31, 2015 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value derivatives	338,949	-	338,949	-	338,949
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	5,673,113	-	-	-	5,673,113
Customers' Deposits	135,761,194	-	-	-	135,761,194
Sukuk	2,011,270	-	-	-	1,806,566

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

14. Fair values of financial assets and liabilities (continued)

b. Measurement of fair values

i. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at September 30, 2016 and 31 December 2015, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets designated at FVIS	Fair value is determined based on the funds' most recent reported Net Asset Values (NAV).	None	Not applicable
Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available.	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	None	Not applicable
Available for sale investments classified as Level 3 include Private Equity Funds	Fair value is determined based on the funds' most recent reported Net Asset Values (NAV).	None	Not applicable
Forward exchange contracts and interest rate swaps	The fair values are based on market quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	None	Not applicable
Corporate debt securities	The fair values are based on either quoted market prices wherever available or relevant and observable market in-puts like CDS spread, zero rate curves etc.	10bps are added to the CDS spread to account for any potential model discrepancy or any stressed market conditions	Higher the spread, lower the valuation will be and vice-versa

ii. Transfer between levels of the fair value hierarchy

There have been no transfers between levels of the fair value hierarchy during the nine months period ended September 30, 2016 and 2015.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

14. Fair values of financial assets and liabilities (continued)

b. Measurement of fair values (continued)

iii. Level 3 fair values

Reconciliation of Level 3 fair values

Financial investments designated as available for sale:

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

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Balance at the beginning of the period	85,794	89,594
Total (losses)/gains in other comprehensive income	(7,844)	7,101
Purchases	-	242,000
Settlements	(52,622)	(9,387)
Balance at the end of the period	25,328	329,308

15. Capital Adequacy

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

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its interim consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013. Accordingly, the Group's Pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group, are as follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2015 (Unaudited)
Credit Risk RWA	144,621,427	142,486,825	139,930,605
Operational Risk RWA	12,881,909	12,021,912	11,751,696
Market Risk RWA	772,969	1,971,389	567,494
Total Pillar-I RWA	158,276,305	156,480,126	152,249,795
Tier I Capital	22,908,039	21,343,997	21,869,950
Tier II Capital	2,881,451	2,840,238	835,682
Total Tier I & II Capital	25,789,490	24,184,235	22,705,632

Capital Adequacy Ratio %

Tier I ratio	14.47%	13.64%	14.36%
Tier I + Tier II ratio	16.29%	15.46%	14.91%

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the SAMA in supervising the Bank.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

16. Comparative figures

During the current period, accrued special commission income and accrued special commission expense relating to prior periods have been reclassified to their respective financial assets and liabilities in the interim consolidated statement of financial position to conform to the current period's presentation. Derivative financial instruments previously classified within other assets and other liabilities have now been disclosed separately on the interim consolidated statement of financial position. There is no impact of these reclassifications on the current and prior periods' interim consolidated income statements.

The impact of these reclassifications on the interim condensed consolidated financial statements is disclosed below.

	As originally reported	Reclassification	Amounts reported after reclassification
December 31, 2015 (Audited)			
Assets			
Due from banks and other financial institutions	5,575,020	79	5,575,099
Investments, net	33,239,175	55,124	33,294,299
Loans and advances, net	115,144,322	511,503	115,655,825
Other assets	1,431,511	(566,706)	864,805
	<u>155,390,028</u>	<u>-</u>	<u>155,390,028</u>
Liabilities			
Due to banks and other financial institutions	5,672,883	230	5,673,113
Customers' deposits	135,686,539	74,655	135,761,194
Other liabilities	4,091,049	(86,155)	4,004,894
Debt securities and sukuk	2,000,000	11,270	2,011,270
	<u>147,450,471</u>	<u>-</u>	<u>147,450,471</u>
September 30, 2015 (Unaudited)			
Assets			
Due from banks and other financial institutions	2,201,673	36	2,201,709
Positive fair value derivatives	-	277,817	277,817
Investments, net	30,716,573	70,071	30,786,644
Loans and advances, net	112,746,929	537,130	113,284,059
Other assets	2,329,631	(885,054)	1,444,577
	<u>147,994,806</u>	<u>-</u>	<u>147,994,806</u>
Liabilities			
Due to banks and other financial institutions	5,012,610	329	5,012,939
Negative fair value derivatives	-	432,564	432,564
Customers' deposits	132,521,561	76,970	132,598,531
Other liabilities	3,732,461	(514,591)	3,217,870
Debt securities in issue	1,687,500	4,728	1,692,228
	<u>142,954,132</u>	<u>-</u>	<u>142,954,132</u>

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine months ended September 30, 2016 and 2015
(SAR'000)

17. Board of Directors' approval on the interim condensed consolidated financial statements

The interim condensed consolidated financial statements were approved by the Board on Muharram 17, 1438 (corresponding to October 18, 2016).

18. Disclosures under BASEL III framework (unaudited / unreviewed)

Certain qualitative and quantitative disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website www.anb.com.sa within prescribed time as required by SAMA. Such disclosures are not subject to audit or review by the external auditors of the Bank.