

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 at March 31, 2015, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and the notes from (1) to (13) which form an integral part of these interim condensed consolidated financial statements. We have neither reviewed note (14), 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, certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency (“SAMA”) and with International Accounting Standard No. 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (13) of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (13) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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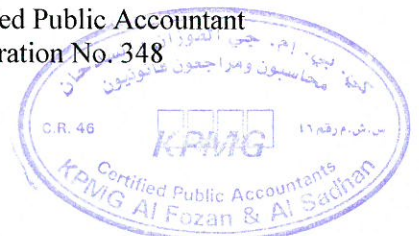


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(20 April 2015)

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ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	March 31, 2015 (Unaudited) SAR'000	December 31, 2014 (Audited) SAR'000	March 31, 2014 (Unaudited) SAR'000
ASSETS				
Cash and balances with SAMA		15,953,508	21,252,327	21,389,708
Due from banks and other financial institutions		2,235,820	1,935,625	1,403,419
Investments, net	4	33,642,535	33,876,206	36,260,772
Loans and advances, net	5	108,344,757	103,724,016	87,418,944
Investments in associates		505,903	494,117	477,624
Other real estate		136,634	136,634	136,634
Property and equipment, net		1,908,211	1,745,936	1,669,594
Other assets		2,059,074	1,503,494	1,745,278
Total assets		164,786,442	164,668,355	150,501,973
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		7,137,997	9,015,640	8,610,431
Customers' deposits	6	131,110,207	129,631,178	117,541,233
Other liabilities		3,884,141	3,694,278	3,019,287
Debt securities in issue		1,687,500	1,687,500	1,687,500
Total liabilities		143,819,845	144,028,596	130,858,451
Equity attributed to equity holders of the Bank				
Share capital	11	10,000,000	10,000,000	10,000,000
Statutory reserve		7,990,000	7,990,000	7,270,000
Other reserves		384,560	278,832	429,617
Retained earnings		2,553,035	1,782,481	1,834,983
Proposed dividends		-	550,000	-
Total equity attributed to equity holders of the Bank		20,927,595	20,601,313	19,534,600
Non-controlling interest		39,002	38,446	108,922
Total equity		20,966,597	20,639,759	19,643,522
Total liabilities and equity		164,786,442	164,668,355	150,501,973

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF INCOME
For the three months period ended
(Unaudited)

	Note	March 31, 2015 SAR'000	March 31, 2014 SAR'000
Special commission income		1,100,280	997,269
Special commission expense		120,637	140,091
Net special commission income		979,643	857,178
Fees and commission income, net		362,430	315,605
Exchange income, net		134,343	95,779
Unrealized (loss)/gain on FVIS financial instruments, net		(68)	291
Trading (loss)/income, net		(10,198)	2,632
Dividend income		14,770	15,577
Gains on non-trading investments, net		467	-
Other operating income, net		21,839	21,709
Total operating income		1,503,226	1,308,771
Salaries and employee related expenses		382,047	302,173
Rent and premises related expenses		36,725	35,229
Depreciation and amortization		47,466	48,227
Other general and administrative expenses		140,577	114,359
Impairment charge for credit losses, net		137,088	106,053
Total operating expenses		743,903	606,041
Net operating income		759,323	702,730
Share in earnings of associates, net		11,787	11,091
Net income for the period		771,110	713,821
Attributable to:			
Equity holders of the Bank		770,554	712,859
Non-controlling interest		556	962
Net income for the period		771,110	713,821
Basic and diluted earnings (in SAR per share)	11	0.77	0.71

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three months period ended
(Unaudited)

	<u>March 31, 2015</u> <u>SAR' 000</u>	<u>March 31, 2014</u> <u>SAR' 000</u>
Net income for the period	<u>771,110</u>	<u>713,821</u>
Other comprehensive income:		
Items that are or may be reclassified to consolidated statement of income in subsequent periods		
Available for sale financial assets:		
- Net changes in fair value	104,763	163,892
- Transfers to interim consolidated statement of income	(54)	-
Cash flows hedges:		
- Net changes in fair value	-	4,786
- Transfers to interim consolidated statement of income	<u>1,019</u>	<u>(2,391)</u>
	<u>105,728</u>	<u>166,287</u>
Total comprehensive income for the period	<u>876,838</u>	<u>880,108</u>
Attributable to:		
Equity holders of the Bank	876,282	879,146
Non-controlling interest	<u>556</u>	<u>962</u>
Total comprehensive income for the period	<u>876,838</u>	<u>880,108</u>

The accompanying notes 1 to 14 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 three months period ended March 31, 2015 and 2014
(Unaudited)

Attributable to equity holders of the Bank

2015

	Share capital	Statutory reserve	Available for sale financial assets	Cash flow hedges	Retained earnings	Proposed dividends	Total	Non- controlling interest	Total equity
Note	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
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 value of cash flow hedges			-	-	-	-	-	-	-
Net changes in fair values of available for sale investments			104,763	-	-	-	104,763	-	104,763
Transfers to interim consolidated statement of income			(54)	1,019	-	-	965	-	965
Net income for the period			-	-	770,554	-	770,554	556	771,110
Total comprehensive income for the period			104,709	1,019	770,554	-	876,282	556	876,838
2014 final dividends paid			-	-	-	(550,000)	(550,000)	-	(550,000)
Balance at the end of the period	10,000,000	7,990,000	384,560	-	2,553,035	-	20,927,595	39,002	20,966,597

Attributable to equity holders of the Bank

2014

	Share capital	Statutory reserve	Available for sale financial assets	Cash flow hedges	Retained earnings	Proposed dividends	Total	Non- controlling interest	Total equity
Note	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Balance at the beginning of the period	8,500,000	7,270,000	282,441	(19,111)	2,622,124	425,000	19,080,454	107,960	19,188,414
Changes in equity for the period:									
Net changes in fair value of cash flow hedges			-	4,786	-	-	4,786	-	4,786
Net changes in fair values of available for sale investments			163,892	-	-	-	163,892	-	163,892
Transfers to interim consolidated statement of income			-	(2,391)	-	-	(2,391)	-	(2,391)
Net income for the period			-	-	712,859	-	712,859	962	713,821
Total comprehensive income for the period			163,892	2,395	712,859	-	879,146	962	880,108
Bonus share issue	11	1,500,000	-	-	(1,500,000)	-	-	-	-
2013 final dividends paid			-	-	-	(425,000)	(425,000)	-	(425,000)
Balance at the end of the period	10,000,000	7,270,000	446,333	(16,716)	1,834,983	-	19,534,600	108,922	19,643,522

The accompanying notes 1 to 14 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 three months period ended
(Unaudited)

	Note	March 31, 2015 SAR'000	March 31, 2014 SAR'000
<u>OPERATING ACTIVITIES</u>			
Net income for the period		771,110	713,821
Adjustments to reconcile net income to net cash (used in) from operating activities for the period:			
Accretion of discounts on non-trading investments, net		(24,618)	(23,665)
Gains on non-trading investments, net		(467)	-
Depreciation and amortization		47,466	48,227
Loss on disposal of property and equipment, net		1,922	36
Share in earnings of associates, net		(11,787)	(11,091)
Impairment charges for credit losses, net		137,088	106,053
		920,714	833,381
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(558,315)	(273,808)
Investments held at FVIS		68	625
Loans and advances		(4,729,285)	926,135
Other assets		(429,418)	(444,257)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,877,643)	969,373
Customers' deposits		1,479,029	11,168,501
Other liabilities		(15,587)	(43,356)
Net cash (used in) from operating activities		(5,210,437)	13,136,594
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		13,246,890	6,993,971
Purchase of non-trading investments		(12,836,963)	(14,858,680)
Purchase of property and equipment		(211,663)	(70,549)
Proceeds from sale of property and equipment		-	10
Net cash from (used in) investing activities		198,264	(7,935,248)
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(544,766)	(420,957)
Net cash used in financing activities		(544,766)	(420,957)
(Decrease) increase in cash and cash equivalents		(5,556,939)	4,780,389
Cash and cash equivalents at the beginning of the period		16,748,786	11,807,064
Cash and cash equivalents at the end of the period	9	11,191,847	16,587,453
Special commission received during the period		1,048,141	946,168
Special commission paid during the period		78,638	46,519
<u>Supplemental non-cash information</u>			
Net changes in fair value		104,763	168,678

The accompanying notes 1 to 14 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 three months period ended March 31, 2015 and 2014
(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 Awal 1, 1400H (corresponding to January 19, 1980) through its 154 branches (2014: 150 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 Shariah Board established by the Bank.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries:

Arab National Bank Investment Company (ANB Invest)

In accordance with the Capital Market Authority directives, the Bank has established a wholly owned subsidiary (directly and indirectly) "ANB Invest", a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia 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 Capital Market Authority. 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. It is to be noted that on 19 Muharram 1436 (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company.

Arabian Heavy Equipment Leasing Company (AHEL)

A 87.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (corresponding to May 10, 2009). The company is engaged in leasing of heavy equipments and, operates in compliance with Shariah 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 of Saudi Arabia under the commercial registration no. 1010396423 issued in Riyadh dated 28 Muharram, 1435 (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Agency to start its activities on 5 Jumada I, 1435 (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom of Saudi Arabia under the commercial registration no. 1010199647 issued in Riyadh dated 18 Jumada 1, 1425. The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months period ended March 31, 2015 and 2014
(SAR'000)

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (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 bylaws.

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, 2014.

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 as at and for the year ended December 31, 2014.

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

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 financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries when 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 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:

- The contractual arrangement 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.

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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months period ended March 31, 2015 and 2014
(SAR'000)

2. Basis of preparation (continued)

Basis of consolidation (continued)

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
- 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 members of the Group are eliminated in full on consolidation.

3. 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, 2014 except for the adoption of the following new standards mentioned below which have had no significant financial impact on the interim condensed consolidated financial statements of the Group:

- Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in periods in which the related service is rendered.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months period ended March 31, 2015 and 2014
(SAR'000)

3. Significant accounting policies (continued)

- Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

IFRS 1 First Time Adoption of IFRS
 IFRS 2 Share-based Payment
 IFRS 3 Business Combinations
 IFRS 8 Operating Segments
 IFRS 13 Fair Value Measurement
 IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
 IAS 24 Related Party Disclosures
 IAS 40 Investment Property

4. Investments, net

Investments are classified as follows:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)	March 31, 2014 (Unaudited)
Held at fair value through income statement (FVIS)	14,467	14,535	16,818
Available for sale	11,285,765	10,893,705	11,428,261
Held at amortized cost, net	22,342,303	22,967,966	24,815,693
Total	<u>33,642,535</u>	<u>33,876,206</u>	<u>36,260,772</u>

5. Loans and advances, net

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)	March 31, 2014 (Unaudited)
Commercial loans and overdrafts	84,056,084	79,955,241	65,168,212
Consumer loans	25,331,941	24,734,820	22,991,399
Credit cards	326,949	324,725	334,511
Performing loans and advances	109,714,974	105,014,786	88,494,122
Non-performing loans and advances, net	1,092,285	1,095,184	1,026,664
Gross loans and advances	110,807,259	106,109,970	89,520,786
Impairment charges for credit losses, net	(2,462,502)	(2,385,954)	(2,101,842)
Loans and advances, net	<u>108,344,757</u>	<u>103,724,016</u>	<u>87,418,944</u>

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months period ended March 31, 2015 and 2014
(SAR'000)

6. Customers' deposits

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)	March 31, 2014 (Unaudited)
Demand	74,444,930	69,263,668	64,190,604
Time	53,314,133	54,616,700	49,793,950
Saving	113,279	98,923	98,873
Other	3,237,865	5,651,887	3,457,806
Total	131,110,207	129,631,178	117,541,233

7. 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.

	March 31, 2015 (Unaudited)			December 31, 2014 (Audited)			March 31, 2014 (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 swaps	54,053	48,717	7,451,790	35,763	30,053	7,564,282	113,088	106,368	8,882,645
Commission rate futures and options	14,286	12,573	2,373,586	15,975	14,129	2,273,382	-	-	76,677
Forward foreign exchange contracts	123,625	92,497	10,695,272	57,687	30,108	5,872,809	48,490	20,091	7,683,547
Currency options	88,463	86,127	21,704,054	44,204	43,979	20,970,262	382	179	11,703,373
Held as fair value hedges:									
Commission rate swaps	1,382	192,190	16,278,135	3,040	122,045	16,297,254	62,033	91,624	9,729,333
Held as cash flow hedges:									
Commission rate swaps	-	-	-	-	-	-	-	15,697	1,237,500
Total	281,809	432,104	58,502,837	156,669	240,314	52,977,989	223,993	233,959	39,313,075

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 175,476 thousands (December 31, 2014: SAR 77,454 thousands, and March 31, 2014: SAR 71,494 thousands).

8. Credit related commitments and contingencies

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)	March 31, 2014 (Unaudited)
Letters of credit	7,197,657	6,328,230	6,181,833
Letters of guarantee	25,526,477	25,743,488	25,100,487
Acceptances	2,268,475	2,097,684	1,540,145
Irrevocable commitments to extend credit	1,131,748	923,915	1,742,792
Other	125,795	631,681	146,156
Total	36,250,152	35,724,998	34,711,413

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months period ended March 31, 2015 and 2014
(SAR'000)

9. Cash and cash equivalents

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)	March 31, 2014 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	8,956,027	14,813,161	15,184,034
Due from banks and other financial institutions maturing within 90 days of the acquisition date	2,235,820	1,935,625	1,403,419
Total	11,191,847	16,748,786	16,587,453

10. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the 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 banking

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

Investment and brokerage services

Investment management services and asset management activities related to dealing, managing, arranging, 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 the operating segments are reported as recorded in the Group's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

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

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10. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at March 31, 2015 and 2014, its total interim consolidated operating income, expenses and net income for the three months then ended, by operating segments, are as follows:

March 31, 2015 (Unaudited)	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	37,692,504	76,385,741	47,460,733	408,821	2,838,643	164,786,442
Investments in associates	-	-	-	-	505,903	505,903
Total liabilities	70,370,905	63,059,151	9,178,543	40,602	1,170,644	143,819,845
Fees and commission income, net	134,352	162,977	3,172	31,928	30,001	362,430
Total operating income	604,476	582,757	217,314	32,573	66,106	1,503,226
Total operating expenses	456,790	220,038	28,111	21,205	17,759	743,903
Share in earnings of associates, net	-	-	-	-	11,787	11,787
Income attributed to non-controlling interest	-	-	-	-	556	556
Net income attributed to equity holders of the Bank	147,686	362,719	189,203	11,368	59,578	770,554
Impairment charges for credit losses, net	60,869	76,219	-	-	-	137,088
Depreciation and amortization	29,265	493	871	1,062	15,775	47,466

March 31, 2014 (Unaudited)	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	33,786,362	58,145,211	55,850,647	88,362	2,631,391	150,501,973
Investments in associates	-	-	-	-	477,624	477,624
Total liabilities	60,516,129	58,723,563	10,289,172	33,312	1,296,275	130,858,451
Fees and commission income, net	104,894	156,552	10,253	28,266	15,640	315,605
Total operating income	530,004	494,402	228,301	30,292	25,772	1,308,771
Total operating expenses	388,004	150,706	23,016	17,570	26,745	606,041
Share in earnings of associates, net	-	-	-	-	11,091	11,091
Income attributed to non-controlling interest	-	-	-	-	962	962
Net income attributed to equity holders of the Bank	142,000	343,696	205,285	12,722	9,156	712,859
Impairment charges for credit losses, net	57,587	48,466	-	-	-	106,053
Depreciation and amortization	34,216	597	923	1,462	11,029	48,227

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11. Share capital and earnings per share

During the period ended 31 March 2014, 150 million bonus shares of SAR 10 each were issued after approval of the shareholders at the extraordinary general assembly meeting held at March 17, 2014.

At March 31, 2015, the Bank has 1,000 million shares of SAR 10 each issued and outstanding (31 December 2014 and 31 March 2014: the same).

Basic and diluted earnings per share for the periods ended 31 March 2015 and 2014 are calculated by dividing the net income for the periods attributed 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 figure.

12. Fair values of financial assets and liabilities

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.

31 March 2015 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at FVIS	-	14,467	-	14,467
Financial investments available for sale	9,275,723	1,680,890	329,152	11,285,765
Derivative financial instruments	-	281,809	-	281,809
Total	9,275,723	1,977,166	329,152	11,582,041
Financial liabilities				
Derivative financial instruments	-	432,104	-	432,104
Total	-	432,104	-	432,104

31 March 2014 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at FVIS	-	16,818	-	16,818
Financial investments available for sale	9,628,153	1,704,874	95,234	11,428,261
Derivative financial instruments	-	223,993	-	223,993
Total	9,628,153	1,945,685	95,234	11,669,072
Financial liabilities				
Derivative financial instruments	-	233,959	-	233,959
Total	-	233,959	-	233,959

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

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 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.

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

Available for sale investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net asset value (NAV) as at the statement of financial position date. 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:

Financial investments designated as available for sale.

	<u>2015</u>	<u>2014</u>
Balance at the beginning of the period	89,594	95,601
Total losses in other comprehensive income	(2,442)	(367)
Purchases	242,000	-
Balance at the end of the period	<u>329,152</u>	<u>95,234</u>

The fair values of on-interim consolidated statement of financial position financial instruments, except for other investments held at amortized cost, which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, debts securities in issue, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of investments held at amortized 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 value of these investments was estimated to be SAR 22.4 billion at 31 March 2015 (31 March 2014: SAR 25 billion).

The fair values of derivatives and other off-interim consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the interim consolidated statement of income, which was estimated using valuation technique at 31 March 2015, is SAR 150.3 million (31 March 2014: SAR 5.7 million).

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13. Capital Adequacy

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

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its 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:

	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Credit Risk RWA	138,625,496	115,200,519
Operational Risk RWA	11,239,023	10,112,634
Market Risk RWA	342,753	1,452,648
Total Pillar-I RWA	150,207,272	126,765,801
Tier I Capital	20,927,595	19,534,600
Tier II Capital	1,083,867	1,146,135
Total Tier I & II Capital	22,011,462	20,680,735
Capital Adequacy Ratio %		
Tier I ratio	13.93%	15.41%
Tier I + Tier II ratio	14.65%	16.31%

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 and adopted by the Saudi Arabian Monetary Agency in supervising the Bank.

14. 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.