



Arab National Bank

(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements

For the period ended 31st March 2017



KPMG Al Fozan & Partners
Certified Public Accountants

**Independent Auditors' Review Report on the
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 31 March 2017, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information 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 International Standards on Auditing endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at 31 March 2017 are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and tax.

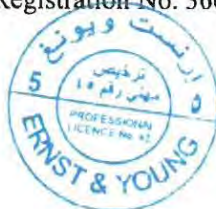
Other Regulatory Matters:

As required by SAMA, certain capital adequacy information has been disclosed in note (14) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (14) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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15 Sha'aban 1438H
(11 May 2017)

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

As at	Notes	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited) (Restated)
ASSETS				
Cash and balances with SAMA		16,423,154	19,503,973	14,890,965
Due from banks and other financial institutions		5,468,290	4,030,850	5,918,203
Positive fair value of derivatives	8	570,343	459,770	309,055
Investments, net	5	25,051,915	25,548,399	23,798,908
Loans and advances, net	6	116,039,530	115,511,521	116,040,301
Investments in associates		623,443	616,395	592,689
Other real estate		136,634	136,634	136,634
Investment property, net		1,645,163	1,651,363	1,669,926
Property and equipment, net		1,796,517	1,839,222	1,962,778
Other assets		672,129	710,595	1,272,410
Total assets		<u>168,427,118</u>	<u>170,008,722</u>	<u>166,591,869</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		5,630,036	3,858,871	5,227,055
Negative fair value of derivatives	8	534,753	439,789	404,918
Customers' deposits	7	131,835,919	135,907,457	132,031,503
Other liabilities		4,379,200	3,859,862	4,358,172
Sukuk		2,037,450	2,018,190	2,023,195
Total liabilities		<u>144,417,358</u>	<u>146,084,169</u>	<u>144,044,843</u>
Equity attributed to equity holders of the Bank				
Share capital	12	10,000,000	10,000,000	10,000,000
Statutory reserve		9,446,000	9,446,000	8,732,000
Available-for-sale financial assets reserve		85,485	166,514	(40,200)
Retained earnings		3,787,772	3,172,847	3,114,887
Proposed dividends		-	450,000	-
Total equity attributed to equity holders of the Bank		<u>23,319,257</u>	<u>23,235,361</u>	<u>21,806,687</u>
Non-controlling interests		690,503	689,192	740,339
Total equity		<u>24,009,760</u>	<u>23,924,553</u>	<u>22,547,026</u>
Total liabilities and equity		<u>168,427,118</u>	<u>170,008,722</u>	<u>166,591,869</u>

The accompanying notes 1 to 16 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 ended
(Unaudited)
(SAR'000)

	<u>Note</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Special commission income		1,504,793	1,281,297
Special commission expense		435,870	319,616
Net special commission income		1,068,923	961,681
Fees and commission income, net		271,853	301,875
Exchange income, net		104,670	129,555
Unrealized gain/(loss) on FVIS financial investments, net		31	(204)
Trading income, net		10,198	172
Dividend income		4,059	7,299
Gains on non-trading investments, net		539	23,252
Other operating income, net		20,307	23,662
Total operating income		1,480,580	1,447,292
Salaries and employee related expenses		306,934	334,237
Rent and premises related expenses		51,158	41,959
Depreciation and amortization		56,730	57,665
Other general and administrative expenses		126,549	145,548
Impairment charges for credit losses, net		176,902	124,782
Total operating expenses		718,273	704,191
Net operating income		762,307	743,101
Share in earnings of associates, net		7,049	8,573
Net income for the period		769,356	751,674
Attributable to:			
Equity holders of the Bank		768,045	749,191
Non-controlling interests		1,311	2,483
Net income for the period		769,356	751,674
Basic and diluted earnings (in SAR per share)	12	0.77	0.75

The accompanying notes 1 to 16 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 ended
(Unaudited)
(SAR'000)

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Net income for the period	769,356	751,674
Other comprehensive income:		
Items that are or may be reclassified to interim consolidated statement of income in subsequent periods		
Available for sale investments:		
- Net changes in fair value	(80,490)	(118,999)
- Net amounts transferred to interim consolidated statement of income	(539)	(23,252)
Total other comprehensive loss for the period	(81,029)	(142,251)
Total comprehensive income for the period	688,327	609,423
Attributable to:		
Equity holders of the Bank	687,016	606,940
Non-controlling interest	1,311	2,483
Total comprehensive income for the period	688,327	609,423

The accompanying notes 1 to 16 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 ended March 31, 2017 and 2016
(Unaudited)
(SAR'000)

Attributable to equity holders of the Bank

2017

	Share capital	Statutory reserve	Available for sale financial assets reserve	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
Balance at the beginning of the period	10,000,000	9,446,000	166,514	3,172,847	450,000	23,235,361	689,192	23,924,553
Changes in equity for the period:								
Net changes in fair values of available for sale investments			(80,490)	-	-	(80,490)	-	(80,490)
Net transfers to interim consolidated statement of income			(539)	-	-	(539)	-	(539)
Net income for the period			-	768,045	-	768,045	1,311	769,356
Total comprehensive income for the period			(81,029)	768,045	-	687,016	1,311	688,327
2016 final dividends	-	-	-	-	(450,000)	(450,000)	-	(450,000)
Zakat for the current period	-	-	-	(91,872)	-	(91,872)	-	(91,872)
Income tax for the current period	-	-	-	(61,248)	-	(61,248)	-	(61,248)
Balance at the end of the period	10,000,000	9,446,000	85,485	3,787,772	-	23,319,257	690,503	24,009,760

Attributable to equity holders of the Bank

2016 (Restated)

	Share capital	Statutory reserve	Available for sale financial assets reserve	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
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			(118,999)	-	-	(118,999)	-	(118,999)
Net transfers to interim consolidated statement of income			(23,252)	-	-	(23,252)	-	(23,252)
Net income for the period			-	749,191	-	749,191	2,483	751,674
Total comprehensive income for the period			(142,251)	749,191	-	606,940	2,483	609,423
2015 final dividends	-	-	-	-	(550,000)	(550,000)	-	(550,000)
Zakat for the current period	-	-	-	(86,250)	-	(86,250)	-	(86,250)
Income tax for the current period	-	-	-	(58,000)	-	(58,000)	-	(58,000)
Balance at the end of the period	10,000,000	8,732,000	(40,200)	3,114,887	-	21,806,687	740,339	22,547,026

The accompanying notes 1 to 16 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 ended
(Unaudited)
(SAR'000)

	<u>Note</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
<u>OPERATING ACTIVITIES</u>			
Net income for the period		769,356	751,674
Adjustments to reconcile net income to net cash used in operating activities for the period:			
Accretion of premiums/(discounts) on non-trading investments, net		2,116	(13,513)
Accrued interest on sukuk		19,260	11,925
Gains on non-trading investments, net		(539)	(23,252)
Unrealized (gains)/losses on FVIS financial investments, net		(31)	204
Dividend income		(4,059)	(7,299)
Depreciation of investment property		6,200	6,203
Depreciation and amortization of property and equipment		56,730	57,665
Losses/(gains) on disposal of property and equipment, net		3,419	(13)
Share in earnings of associates, net		(7,049)	(8,573)
Impairment charges for credit losses, net		176,902	124,782
		1,022,305	899,803
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		17,615	250,800
Investments held at FVIS		757	1,313,095
Positive fair value of derivatives		(110,573)	(18,897)
Loans and advances, net		(698,884)	(511,977)
Other assets		38,467	(407,605)
Other real estate		-	23,259
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,771,165	(446,058)
Negative fair value of derivatives		94,964	65,969
Customers' deposits		(4,071,538)	(3,729,691)
Other liabilities		(76,291)	(396,541)
Net cash used in operating activities		(2,012,013)	(2,957,843)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		739,360	16,349,972
Purchase of non-trading investments		(339,120)	(8,214,707)
Investment in associates		-	(52,500)
Purchase of investment property		-	(263)
Purchase of property and equipment		(18,991)	(108,971)
Proceeds from sale of property and equipment		1,547	33,961
Dividends received		4,059	7,299
Net cash from investing activities		386,855	8,014,791
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(606)	(370)
Net cash used in financing activities		(606)	(370)
Net (decrease) / increase in cash and cash equivalents		(1,625,764)	5,056,578
Cash and cash equivalents at the beginning of the period		16,347,323	8,680,518
Cash and cash equivalents at the end of the period	10	14,721,559	13,737,096
Special commission received during the period		1,373,932	1,269,457
Special commission paid during the period		(380,890)	(301,307)
<u>Supplemental non-cash information</u>			
Net changes in fair value of available for sale investments		(80,490)	(118,999)

The accompanying notes 1 to 16 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 ended March 31, 2017 and 2016
(Unaudited)
(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 149 branches (2016: 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 Shariah Board established by the Bank.

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

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, 1428H (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, 1436H (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. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

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 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 Authority (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 three months ended March 31, 2017 and 2016
(Unaudited)
(SAR'000)

2. Basis of preparation

During 2017, SAMA issued a Circular no. 381000074519 dated April 11, 2017 and subsequent amendments to the circular were made by SAMA through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments are as follows:

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

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the quarter ended March 31, 2017 have been prepared using the International Accounting Standard (IAS) 34 – Interim Financial Reporting and SAMA guidance for the accounting of zakat and tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards ("IFRS"). This change in framework resulted in a change in accounting policy for zakat and income tax (as disclosed in note 4(a)) and the effects of this change are disclosed in note 15 to the interim condensed consolidated financial statements.

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, 2016.

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, 2016.

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 interim condensed financial statements of the subsidiaries where necessary to align them with the Bank's interim condensed consolidated 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:

- The 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 three months ended March 31, 2017 and 2016
(Unaudited)
(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 period 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 statement of income 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.

4. Significant Accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2016 except for:

a) Change in the accounting policy in relation to accounting for Zakat and income tax

The Group amended its accounting policy relating to zakat and income tax and have started to accrue zakat and income tax on a quarterly basis and charging it to retained earnings. Previously, zakat and income tax were deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. In case no dividends were paid, zakat and income tax were accounted for as part of the appropriation of retained earnings. The Group has accounted for this change in the accounting policy relating to zakat and income tax retrospectively and the effects of the above change are disclosed in note 15 to the interim condensed consolidated financial statements.

b) Adoption of the following 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 are expected to have no significant effect in future periods:

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2017 and 2016
(SAR'000)

4. Significant Accounting policies (continued)

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

5. Investments, net

Investments are classified as follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited)
Designated as fair value through income statement (FVIS)	-	726	7,277
Available for sale	8,998,267	9,457,044	10,619,625
Other investments held at amortized cost	16,053,648	16,090,629	13,172,006
Total	25,051,915	25,548,399	23,798,908

6. Loans and advances, net

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited)
Commercial loans and overdrafts	91,735,774	91,307,234	89,676,787
Consumer loans	25,051,324	25,410,888	27,555,455
Credit cards	477,638	504,504	451,174
Performing loans and advances	117,264,736	117,222,626	117,683,416
Non-performing loans and advances, net	1,609,360	1,006,686	1,225,496
Gross loans and advances	118,874,096	118,229,312	118,908,912
Impairment charges for credit losses, net	(2,834,566)	(2,717,791)	(2,868,611)
Loans and advances, net	116,039,530	115,511,521	116,040,301

7. Customers' deposits

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited)
Demand	65,127,922	65,092,740	68,446,978
Time	63,384,320	65,003,835	60,184,738
Saving	84,637	93,124	82,337
Others	3,239,040	5,717,758	3,317,450
Total	131,835,919	135,907,457	132,031,503

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2017 and 2016
(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. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	March 31, 2017 (Unaudited)			December 31, 2016 (Audited)			March 31, 2016 (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	224,977	204,634	11,831,457	126,909	119,737	8,593,057	36,681	27,776	6,739,459
Commission rate futures and options	214,605	210,444	9,499,047	138,665	133,890	10,174,085	8,450	7,295	2,250,000
Forward foreign exchange and commodity contracts	90,107	52,605	7,094,913	131,360	97,055	10,346,134	117,638	87,550	9,192,136
Currency and commodity options	21,908	20,719	5,876,372	36,558	35,030	7,704,165	128,510	115,806	16,197,165
Held as fair value hedges:									
Commission rate swaps	18,746	46,351	8,293,204	26,278	54,077	8,689,459	17,776	166,491	12,304,628
Total	570,343	534,753	42,594,993	459,770	439,789	45,506,900	309,055	404,918	46,683,388

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 placed and received against derivatives, amounting to SAR 19,537 thousands (December 31, 2016: SAR 12,290 thousands, and March 31, 2016: SAR 132,140 thousands).

9. Credit related commitments and contingencies

a) The Group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at December 31, 2016.

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited)
Letters of credit	5,030,044	3,976,896	4,884,735
Letters of guarantee	24,396,148	25,114,398	26,468,066
Acceptances	1,657,783	1,619,502	2,198,745
Irrevocable commitments to extend credit	2,786,711	3,010,172	2,867,324
Other	100,868	101,726	107,741
Total	33,971,554	33,822,694	36,526,611

The unutilized portion of non-firm commitments as at March 31, 2017 which can be revoked unilaterally at any time by the Bank, amounts SAR 18,395 million (December 31, 2016: SAR 18,591 million and March 31, 2016: SAR 20,228 million).

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10. Cash and cash equivalents

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	9,253,269	12,316,473	7,818,893
Due from banks and other financial institutions maturing within 90 days from the acquisition date	5,468,290	4,030,850	5,918,203
Total	14,721,559	16,347,323	13,737,096

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 the operating segments are reported as recorded in the Group's transfer pricing system. The Group has amended the transfer pricing methodology, effective from January 1, 2016 to enhance the business segment reporting. These changes have been applied retrospectively, hence the basis for determining intersegment operating income/(expense) for the current period are consistent with the basis used for March 31, 2016. Segment assets and liabilities comprise mainly operating assets and liabilities.

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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11. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at March 31, 2017 and 2016, its total operating income, expenses and net income for the three months then ended, by operating segments, are as follows:

March 31, 2017 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	37,309,831	82,744,690	44,661,073	1,719,008	1,992,516	168,427,118
Investments in associates	-	-	-	-	623,443	623,443
Total liabilities	68,896,398	66,187,500	7,759,056	128,752	1,445,652	144,417,358
Operating income / (loss) from external customers	493,321	1,005,581	(81,545)	38,213	25,010	1,480,580
Intersegment operating income/(expense)	92,779	(431,256)	328,418	-	10,059	-
Total operating income	586,100	574,325	246,873	38,213	35,069	1,480,580
Of which:						
Net special commission income	495,576	434,933	123,426	2,071	12,917	1,068,923
Fees and commission income, net	83,395	146,193	3,901	16,165	22,199	271,853
Impairment charge on loans and advances, net	76,128	100,774	-	-	-	176,902
Depreciation and amortization	30,380	1,255	890	571	23,634	56,730
Total operating expenses	426,450	231,830	26,070	24,476	9,447	718,273
Share in earnings of associates, net	-	-	-	-	7,049	7,049
Net income attributed to non-controlling interest	-	-	-	-	1,311	1,311
Net income attributed to equity holders of the Bank	159,650	342,495	220,803	13,737	31,360	768,045
March 31, 2016 (Restated) (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	41,363,430	80,467,290	40,556,033	1,761,024	2,444,092	166,591,869
Investments in associates	-	-	-	-	592,689	592,689
Total liabilities	66,137,814	68,272,322	7,662,464	199,259	1,772,984	144,044,843
Operating income / (loss) from external customers	552,302	858,181	(67,909)	34,882	69,836	1,447,292
Intersegment operating income/(expense)	24,309	(371,740)	308,178	-	39,253	-
Total operating income	576,611	486,441	240,269	34,882	109,089	1,447,292
Of which:						
Net special commission income	457,852	350,676	110,254	(7,241)	50,140	961,681
Fees and commission income, net	105,804	147,514	3,396	20,789	24,372	301,875
Impairment charge on loans and advances, net	58,512	66,270	-	-	-	124,782
Depreciation and amortization	33,888	825	900	1,010	21,042	57,665
Total operating expenses	426,625	210,201	31,675	23,899	11,791	704,191
Share in earnings of associates, net	-	-	-	-	8,573	8,573
Net income attributed to non-controlling interest	-	-	-	-	2,483	2,483
Net income attributed to equity holders of the Bank	149,986	276,240	208,594	10,983	103,388	749,191

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12. Share capital and earnings per share

As at March 31, 2017, the authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (December 31, 2016 and March 31, 2016: 1,000 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended March 31, 2017 and 2016 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.

The Extraordinary General Assembly in its meeting held on March 23, 2017 approved a cash dividend of SAR 450 million, at the rate of SAR 0.45 per share, as recommended by the Board of Directors of the Bank.

13. 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	March 31, 2017 (Unaudited)	Carrying value	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at fair value						
Available for sale investments		8,998,267	7,780,525	1,194,262	23,480	8,998,267
Positive fair value of derivatives		570,343	-	570,343	-	570,343
Financial assets not measured at fair value						
Due from banks and other financial institutions		5,468,290	-	-	-	5,468,290
Other investments at amortised cost		16,053,648	529,468	15,363,594	-	15,893,062
Loans and advances		116,039,530	-	117,206,659	-	117,206,659

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

a. Carrying amounts and fair value (continued)

December 31, 2016 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
FVIS investments	726	-	726	-	726
Available for sale investments	9,457,044	7,974,102	1,458,727	24,215	9,457,044
Positive fair value of derivatives	459,770	-	459,770	-	459,770
Financial assets not measured at fair value					
Due from banks and other financial institutions	4,030,850	-	-	-	4,030,850
Other investments at amortised cost	16,090,629	523,474	15,378,858	-	15,902,332
Loans and advances	115,511,521	-	116,570,946	-	116,570,946

Financial Liabilities

March 31, 2017 (Unaudited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value of derivatives	534,753	-	534,753	-	534,753
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	5,630,036	-	-	-	5,630,036
Customer deposits	131,835,919	-	-	-	131,835,919
Sukuk	2,037,450	-	1,900,254	-	1,900,254

December 31, 2016 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value of derivatives	439,789	-	439,789	-	439,789
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,858,871	-	-	-	3,858,871
Customer deposits	135,907,457	-	-	-	135,907,457
Sukuk	2,018,190	-	1,906,366	-	1,906,366

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13. 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 March 31, 2017 and December 31, 2016 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 fund's most recent reported carrying value of net assets attributable to unitholders.	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 fund's most recent reported carrying value of net assets attributable to unitholders.	None	Not applicable
Forward exchange contract 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 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 vice-versa

ii. Transfer between levels of the fair value hierarchy

There have been no transfers within levels of the fair value hierarchy during the three months period ended March 31, 2017 and 2016.

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.

	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Balance at the beginning of the period	24,215	85,794
Total gains in other comprehensive income	7,232	5,493
Settlements	(7,967)	(58,333)
Balance at the end of the period	23,480	32,954

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14. 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 are as follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	March 31, 2016 (Unaudited) (Restated)
Credit Risk RWA	145,916,665	142,002,565	145,700,743
Operational Risk RWA	13,032,714	12,892,057	12,319,763
Market Risk RWA	1,624,902	933,982	634,301
Total Pillar-I RWA	160,574,281	155,828,604	158,654,807
Tier I Capital	23,319,257	22,785,361	21,806,687
Tier II Capital	2,906,451	2,881,451	2,855,470
Total Tier I & II Capital	26,225,708	25,666,812	24,662,157
Capital Adequacy Ratio %			
Tier I ratio	14.52%	14.62%	13.74%
Tier I + Tier II ratio	16.33%	16.47%	15.54%

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.

15. Comparative figures

- a. During the current period, recoveries on credit losses relating to prior period have been reclassified from other operating income (net) to impairment charges for credit losses (net) in the interim consolidated statement of income to conform to the current period's presentation.

The impact of these reclassifications on the interim consolidated statement of income is disclosed below.

	<u>As originally reported</u>	<u>Reclassification</u>	<u>Amounts reported after reclassification</u>
March 31, 2016 (unaudited)			
Other operating income, net	51,562	(27,900)	23,662
Impairment charges for credit losses, net	(152,682)	27,900	(124,782)
	<u>(101,120)</u>	<u>-</u>	<u>(101,120)</u>

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15. Comparative figures (continued)

b. Proposed dividends have been restated to be reflected in the liabilities caption rather than the equity attributed to equity holders of the Bank in accordance with the extraordinary general assembly dated March 24, 2016.

The change in the accounting policy for zakat and income tax (as explained in note 4(a)) and the restatement of the proposed dividends referred to above have the following impacts on the line items of interim consolidated statements of financial position and changes in equity as of and for the period ended March 31, 2016:

March 31, 2016 (unaudited)	<u>As originally reported</u>	<u>Restatement</u>	<u>Amounts reported after restatement</u>
Other liabilities	3,663,922	694,250	4,358,172
Proposed dividends	550,000	(550,000)	-
Retained earnings	<u>3,259,137</u>	<u>(144,250)</u>	<u>3,114,887</u>
	<u>7,473,059</u>	<u>-</u>	<u>7,473,059</u>

The above change in accounting policy and restatement of proposed dividends did not have an impact on interim consolidated statements of income, comprehensive income and cash flows for any of the periods presented.

16. Board of Directors' approval

The interim condensed consolidated financial statements were approved by the Board on Sha'ban 7, 1438 (corresponding to May 3, 2017).