

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, 2014 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 not reviewed note (14), nor the information related to "Basel III Capital Structure Disclosures" 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.

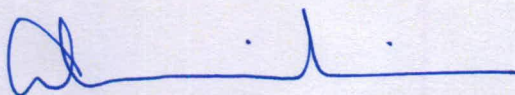
Conclusion

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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14 Jumada Al-Akher 1435H
(14 April 2014)

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

As at	Note	March 31, 2014 (Unaudited) SAR'000	December 31, 2013 (Audited) SAR'000	March 31, 2013 (Unaudited) SAR'000
ASSETS				
Cash and balances with SAMA		21,389,708	14,971,749	20,818,093
Due from banks and other financial institutions		1,403,419	2,767,181	1,365,244
Investments, net	4	36,260,772	28,248,369	21,745,411
Loans and advances, net	5	87,418,944	88,456,106	85,968,385
Investment in associates		477,624	466,533	438,484
Other real estate		136,634	136,634	288,006
Property and equipment, net		1,669,594	1,647,318	1,533,315
Other assets		1,745,278	1,241,534	1,514,320
Total assets		150,501,973	137,935,424	133,671,258
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		8,610,431	7,641,058	1,485,717
Customers' deposits	6	117,541,233	106,372,732	109,088,926
Other liabilities		3,019,287	3,045,720	3,650,902
Debt securities in issue		1,687,500	1,687,500	1,687,500
Total liabilities		130,858,451	118,747,010	115,913,045
Equity attributed to equity holders of the Bank				
Share capital	11	10,000,000	8,500,000	8,500,000
Statutory reserve		7,270,000	7,270,000	6,630,000
Other reserves		429,617	263,330	264,023
Retained earnings		1,834,983	2,622,124	2,258,352
Proposed dividends		-	425,000	-
Total equity attributed to equity holders of the Bank		19,534,600	19,080,454	17,652,375
Non-controlling interest		108,922	107,960	105,838
Total equity		19,643,522	19,188,414	17,758,213
Total liabilities and equity		150,501,973	137,935,424	133,671,258

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, 2014 SAR'000	March 31, 2013 SAR'000
Special commission income		997,269	964,577
Special commission expense		<u>140,091</u>	<u>189,369</u>
Net special commission income		857,178	775,208
Fees and commission income, net		315,605	287,790
Exchange income, net		95,779	81,059
Income from FVIS financial instruments, net		291	4,969
Trading income, net		2,632	33,040
Dividend income		15,577	26,271
Gains and impairment of non-trading investments, net		-	22,898
Other operating income		<u>21,709</u>	<u>37,053</u>
Total operating income		<u>1,308,771</u>	<u>1,268,288</u>
Salaries and employee related expenses		302,173	297,249
Rent and premises related expenses		35,229	33,141
Depreciation and amortization		48,227	47,800
Other general and administrative expenses		114,359	113,049
Impairment charges for credit losses, net		<u>106,053</u>	<u>106,266</u>
Total operating expenses		<u>606,041</u>	<u>597,505</u>
Net operating income		702,730	670,783
Share in earnings of an associate		<u>11,091</u>	<u>8,438</u>
Net income for the period		713,821	679,221
Income attributed to non-controlling interest		<u>(962)</u>	<u>(526)</u>
Net income attributed to equity holders of the Bank		<u>712,859</u>	<u>678,695</u>
Basic and fully diluted earnings (in SAR per share)	11	<u>0.71</u>	<u>0.68</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 COMPREHENSIVE INCOME
For the three months period ended
(Unaudited)

	March 31, 2014 SAR' 000	March 31, 2013 SAR' 000
Net income for the period	713,821	679,221
Other comprehensive income:		
Available for sale investments		
- Net changes in fair value	163,892	40,080
- Transfers to interim consolidated statement of income	-	(22,898)
Cash flows hedges		
- Net changes in fair value	4,786	4,611
- Transfers to interim consolidated statement of income	(2,391)	(2,388)
	166,287	19,405
Total comprehensive income for the period	880,108	698,626
Attributable to:		
Equity holders of the Bank	879,146	698,100
Non-controlling interest	962	526
Total comprehensive income for the period	880,108	698,626

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 ended March 31, 2014 and 2013
(Unaudited)

Attributable to equity holders of the Bank

2014

	Note	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000	Non-controlling interest SAR' 000	Total equity SAR' 000
Balance at the beginning of the period		8,500,000	7,270,000	263,330	2,622,124	425,000	19,080,454	107,960	19,188,414
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 comprehensive income for the period				166,287	-	-	166,287	-	166,287
Net income for the period				-	712,859	-	712,859	962	713,821
Total comprehensive income for the period				166,287	712,859	-	879,146	962	880,108
Bonus share issue	11	1,500,000	-	-	(1,500,000)	-	-	-	-
2013 final Dividend		-	-	-	-	(425,000)	(425,000)	-	(425,000)
Balance at the end of the period		10,000,000	7,270,000	429,617	1,834,983	-	19,534,600	108,922	19,643,522

Attributable to equity holders of the Bank

2013

	Note	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000	Non-controlling interest SAR' 000	Total equity SAR' 000
Balance at the beginning of the period		8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587
Net changes in fair value of cash flow hedges				4,611	-	-	4,611	-	4,611
Net changes in fair values of available for sale investments				40,080	-	-	40,080	-	40,080
Transfers to interim consolidated statement of income				(25,286)	-	-	(25,286)	-	(25,286)
Net comprehensive income for the period				19,405	-	-	19,405	-	19,405
Net income for the period				-	678,695	-	678,695	526	679,221
Total comprehensive income for the period				19,405	678,695	-	698,100	526	698,626
2012 final Dividend				-	-	(850,000)	(850,000)	-	(850,000)
Balance at the end of the period		8,500,000	6,630,000	264,023	2,258,352	-	17,652,375	105,838	17,758,213

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 ended
(Unaudited)

	Note	March 31, 2014 SAR'000	March 31, 2013 SAR'000
<u>OPERATING ACTIVITIES</u>			
Net income for the period		713,821	679,221
Adjustments to reconcile net income to net cash from (used in) operating activities			
Accretion of discounts on non-trading investments, net		(23,665)	(6,023)
Gain and impairment of non-trading investments, net		-	(22,898)
Depreciation and amortization		48,227	47,800
Loss on disposal of property and equipment, net		36	-
Share in earnings of an associate		(11,091)	(8,438)
Impairment charges for credit losses, net		106,053	106,266
		833,381	795,928
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(273,808)	(349,092)
Investments held at FVIS		625	50,543
Loans and advances		926,135	250,749
Other assets		(444,257)	(126,132)
Other real estate		-	31,000
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		969,373	(5,064,207)
Customers' deposits		11,168,501	1,528,483
Other liabilities		(43,356)	(534,762)
Net cash from (used in) operating activities		13,136,594	(3,417,490)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		6,993,971	19,422,889
Purchase of non-trading investments		(14,858,680)	(16,671,197)
Purchase of property and equipment		(70,549)	(74,804)
Proceeds from sale of property and equipment		10	-
Net cash (used in) from investing activities		(7,935,248)	2,676,888
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(420,957)	(506)
Net cash used in financing activities		(420,957)	(506)
Increase (decrease) in cash and cash equivalents		4,780,389	(741,108)
Cash and cash equivalents at the beginning of the period		11,807,064	17,304,744
Cash and cash equivalents at the end of the period	9	16,587,453	16,563,636
Special commission received during the period		946,168	970,213
Special commission paid during the period		(46,519)	(125,313)
<u>Supplemental non-cash information</u>			
Net changes in fair value		168,678	44,691

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 ended March 31, 2014 and 2013
(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 (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 (January 19, 1980) through 150 branches (2013: 146 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 limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on Shawal26, 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 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.

Arabian Heavy Equipment Leasing Company (AHEL)

A 62.5% 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 operating in compliance with Shariah principals. The Bank started consolidating the subsidiary financial statements effective May 10, 2009, the date the subsidiary started its operation.

Arab National Bank 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 agency is licensed by the Saudi Arabian Monetary Agency under the license no. 341000077525 to perform insurance agent activities. The agency is not yet operating and will start its operation after obtaining the approvals of the concerned regulatory parties.

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 IAS 34 – Interim Financial Reporting as issued by the international standards accounting board. 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 laws.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

2. Basis of preparation (continued)

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, 2013.

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

Basis of consolidation

The interim condensed consolidated financial statements comprise the interim condensed financial statements of "Arab National Bank" and its subsidiaries, ANB Invest and AHIL (collectively referred to as the Group). The 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 to align them with the Bank's financial statements.

Subsidiaries are investees controlled by the Bank. The Bank 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 Bank controls an investee if and only if the Bank 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 Bank has less than a majority of the voting or similar rights of an investee, the Bank 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
- The Bank's voting rights and potential voting rights

The Bank 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 Bank obtains control over the subsidiary and ceases when the Bank 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 Bank gains control until the date the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to align them with the Bank's financial statements.

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 condensed consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity holders of the bank. Any losses applicable to the non-controlling interest in excess of the non-controlling interest share are allocated against the interests of the Bank. 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.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

2. Basis of preparation (continued)

Basis of consolidation (continued)

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3. Accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used for the year ended December 31, 2013 except for the adoption of the following standards which had no significant financial impact on the interim condensed financial statements of the Group:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

In addition to the above, the Group has currently chosen not to adopt IFRS 9 (2010) – Financial instruments. The standard does not have a mandatory effective date, but it is available for application now.

The Group is currently assessing the implication of the above standards and amendments on the Group and the timing of adoption.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

4. Investments, net

Investments are classified as follows:

	March 31, 2014 (Unaudited)	December 31, 2013(Audited)	March 31, 2013 (Unaudited)
Held at fair value through income statement (FVIS)	16,818	17,443	27,635
Available for sale	11,428,261	10,907,749	5,396,905
Held at amortized cost, net	24,815,693	17,323,177	16,320,871
Total	<u>36,260,772</u>	<u>28,248,369</u>	<u>21,745,411</u>

5. Loans and advances, net

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

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)	March 31, 2013 (Unaudited)
Commercial loans and overdrafts	65,168,212	66,630,893	64,521,002
Consumer loans	22,991,399	22,519,724	22,448,010
Credit cards	334,511	355,959	370,137
Performing loans and advances	88,494,122	89,506,576	87,339,149
Non-performing loans and advances, net	1,026,664	1,003,570	1,376,468
Gross loans and advances	89,520,786	90,510,146	88,715,617
Impairment charges for credit losses, net	(2,101,842)	(2,054,040)	(2,747,232)
Loans and advances, net	<u>87,418,944</u>	<u>88,456,106</u>	<u>85,968,385</u>

6. Customers' deposits

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)	March 31, 2013 (Unaudited)
Demand	64,190,604	57,388,751	55,187,596
Time	49,793,950	42,843,203	50,625,136
Saving	98,873	104,608	111,980
Other	3,457,806	6,036,170	3,164,214
Total	<u>117,541,233</u>	<u>106,372,732</u>	<u>109,088,926</u>

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

7. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts. 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, 2014 (Unaudited)			December 31, 2013 (Audited)			March 31, 2013 (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	113,088	106,368	8,882,645	119,174	114,332	7,786,184	64,818	57,012	5,448,337
Commission rate futures and options	-	-	76,677	-	-	24,815	-	-	12,025,914
Forward foreign exchange contracts	48,490	20,091	7,683,547	50,043	21,015	6,310,929	71,377	53,483	10,224,103
Currency options	382	179	11,703,373	2,825	2,820	13,306,210	248,327	246,614	15,582,729
Held as fair value hedges:									
Commission rate swaps	62,033	91,624	9,729,333	4,859	81,171	2,642,222	3,022	148,785	4,439,654
Held as cash flow hedges:									
Commission rate swaps	-	15,697	1,237,500	-	18,092	1,237,500	6,401	4,178	2,193,750
Total	223,993	233,959	39,313,075	176,901	237,430	31,307,860	393,945	510,072	49,914,487

8. Credit related commitments and contingencies

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

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)	March 31, 2013 (Unaudited)
Letters of credit	6,181,833	5,662,967	7,934,807
Letters of guarantee	25,100,487	24,916,838	26,289,459
Acceptances	1,540,145	1,536,884	3,663,227
Irrevocable commitments to extend credit	1,742,792	2,206,468	1,646,985
Other	146,156	148,462	160,375
Total	34,711,413	34,471,619	39,694,853

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(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, 2014 (Unaudited)	December 31, 2013 (Audited)	March 31, 2013 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	15,184,034	9,039,883	15,198,392
Due from banks and other financial institutions maturing within 90 days of the acquisition date	1,403,419	2,767,181	1,365,244
Total	16,587,453	11,807,064	16,563,636

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 interim consolidated assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall interim condensed consolidated financial statements.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

10. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at March 31, 2014 and 2013, its total interim consolidated operating income, expenses and net income and other related information for the three months then ended, by operating segments, as reported to senior management, are as follows:

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
Total liabilities	60,516,129	58,723,563	10,289,172	33,312	1,296,275	130,858,451
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 an associate	-	-	-	-	11,091	11,091
Income attributed to non- controlling interest	-	-	-	-	962	962
Net income for the period	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
March 31, 2013 (Unaudited)	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	31,809,778	58,260,451	41,171,019	147,258	2,282,752	133,671,258
Total liabilities	53,594,437	57,221,185	3,719,202	32,590	1,345,631	115,913,045
Total operating income	523,628	427,432	228,213	38,756	50,259	1,268,288
Total operating expenses	386,666	161,993	19,768	22,411	6,667	597,505
Share in earnings of an associate	-	-	-	-	8,438	8,438
Income attributed to non- controlling interest	-	-	-	-	526	526
Net income for the period	136,962	265,439	208,445	16,345	51,504	678,695
Impairment charges for credit losses, net	49,690	56,576	-	-	-	106,266
Depreciation and amortization	35,417	774	956	1,729	8,924	47,800

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

11. Share capital and earnings per share

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

At March 31, 2014, the Bank has 1,000 million shares of SAR 10 each (31 March 2013: 850 million shares) issued and outstanding.

Basic and diluted earnings per share for the periods ended March 31, 2014 and 2013 are calculated by dividing the net income for the periods by 1,000 million shares to give retroactive effect to the change in the number of shares as a result of 2014 bonus shares.

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.

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	48,490	175,503	-	223,993
Total	9,676,643	1,897,195	95,234	11,669,072
Financial Liabilities				
Derivative financial instruments	20,091	213,868	-	233,959
Total	20,091	213,868	-	233,959
<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Financial assets designated at FVIS	1,302	26,333	-	27,635
Financial investments available for sale	3,410,764	1,916,125	70,016	5,396,905
Derivative financial instruments	71,377	322,568	-	393,945
Total	3,483,443	2,265,026	70,016	5,818,485
Financial Liabilities				
Derivative financial instruments	53,483	456,589	-	510,072
Total	53,483	456,589	-	510,072

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

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 values of on-interim consolidated statement of financial position financial instruments, except for other investments held at amortized cost, held-to-maturity investments 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. The fair value of these investments was estimated to be SAR 25 billion at 31 March 2014.

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 2014, is SAR 5.7 million (31 March 2013: SAR 118 million).

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, 2014 (Unaudited)	March 31, 2013 (Unaudited)
Credit Risk RWA	115,200,519	116,471,821
Operational Risk RWA	10,112,634	9,018,250
Market Risk RWA	1,452,648	1,260,211
Total Pillar-I RWA	126,765,801	126,750,282
Tier I Capital	19,534,600	17,652,375
Tier II Capital	1,146,135	1,382,385
Total Tier I & II Capital	20,680,735	19,034,760
Capital Adequacy Ratio %		
Tier I ratio	15.41%	13.93%
Tier I + Tier II ratio	16.31%	15.02%

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended March 31, 2014 and 2013
(SAR'000)

13. Capital Adequacy (continued)

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. BASEL III capital structure disclosures

Certain quantitative disclosures on the Bank's capital structure are required to be published on Bank's website. These disclosures will be made available on the Bank's website www.anb.com.sa as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review or audit by the external auditors.