

**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 September 30, 2013, the related interim consolidated statements of income and comprehensive income for the three month and nine month periods then ended, the related interim consolidated statements of changes in equity and cash flows for the nine month period then ended and the notes from (1) to (14) for the nine month period then ended. We have not reviewed note (15), 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 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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16 Dhul Hijjah 1434H  
(21 October 2013)

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

| <b>As at</b>   | <b>Note</b> | <b>September 30,<br/>2013<br/>(Unaudited)<br/>SAR'000</b> | <b>December 31,<br/>2012<br/>(Audited)<br/>SAR'000</b> | <b>September 30,<br/>2012<br/>(Unaudited)<br/>SAR'000</b> |
|--|-------------|---|--|---|
| <b>ASSETS</b>  |             |   |  |   |
| Cash and balances with SAMA                                  |             | <b>14,557,186</b>   | 20,334,429   | 8,751,791   |
| Due from banks and other financial institutions              |             | <b>4,899,116</b>  | 2,240,924  | 2,901,679   |
| Investments, net   | 4           | <b>28,349,974</b>   | 24,323,047   | 26,466,625  |
| Loans and advances, net                                      | 5           | <b>86,113,740</b>   | 86,328,608   | 83,653,091  |
| Investment in associates                                     |             | <b>456,487</b>  | 430,046  | 420,658   |
| Other real estate  |             | <b>136,634</b>  | 319,006  | 319,174   |
| Property and equipment, net                                  |             | <b>1,594,880</b>  | 1,506,311  | 1,516,888   |
| Other assets   |             | <b>1,779,349</b>  | 1,156,905  | 1,318,115   |
| <b>Total assets</b>  |             | <b><u>137,887,366</u></b>                                 | <u>136,639,276</u>                                     | <u>125,348,021</u>  |
| <b>LIABILITIES AND EQUITY</b>                                |             |   |  |   |
| <b>Liabilities</b>   |             |   |  |   |
| Due to banks and other financial institutions                |             | <b>9,190,421</b>  | 6,549,924  | 5,414,216   |
| Customers' deposits  | 6           | <b>105,205,544</b>  | 107,560,443  | 98,272,808  |
| Other liabilities  |             | <b>2,746,322</b>  | 2,931,822  | 2,100,207   |
| Debt securities in issue                                     |             | <b>1,687,500</b>  | 1,687,500  | 1,687,500   |
| <b>Total liabilities</b>                                     |             | <b><u>118,829,787</u></b>                                 | <u>118,729,689</u>                                     | <u>107,474,731</u>  |
| <b>Equity attributed to equity holders of the Bank</b>       |             |   |  |   |
| Share capital  | 11          | <b>8,500,000</b>  | 8,500,000  | 8,500,000   |
| Statutory reserve  |             | <b>6,630,000</b>  | 6,630,000  | 6,030,000   |
| Other reserves   |             | <b>254,695</b>  | 244,618  | 224,971   |
| Retained earnings  |             | <b>3,565,523</b>  | 1,579,657  | 3,012,636   |
| Proposed dividend  |             | <b>-</b>  | 850,000  | -   |
| <b>Total equity attributed to equity holders of the Bank</b> |             | <b><u>18,950,218</u></b>                                  | <u>17,804,275</u>                                      | <u>17,767,607</u>   |
| Non-controlling interest                                     |             | <b>107,361</b>  | 105,312  | 105,683   |
| <b>Total equity</b>  |             | <b><u>19,057,579</u></b>                                  | <u>17,909,587</u>                                      | <u>17,873,290</u>   |
| <b>Total liabilities and equity</b>                          |             | <b><u>137,887,366</u></b>                                 | <u>136,639,276</u>                                     | <u>125,348,021</u>  |

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**INTERIM CONSOLIDATED STATEMENT of INCOME**  
**(Unaudited)**

|   | <u>For the three months ended</u> |                       | <u>For the nine months ended</u> |                       |
|---|-----------------------------------|-----------------------|----------------------------------|-----------------------|
|   | <b>September 30,<br/>2013</b>     | September 30,<br>2012 | <b>September 30,<br/>2013</b>    | September 30,<br>2012 |
| <b>Note</b>   | <b>SAR'000</b>                    | SAR'000               | <b>SAR'000</b>                   | SAR'000               |
| Special commission income   | <b>988,691</b>                    | 954,519               | <b>2,925,509</b>                 | 2,772,264             |
| Special commission expense  | <b>111,882</b>                    | 108,770               | <b>436,594</b>                   | 310,988               |
| <b>Net special commission income</b>  | <b>876,809</b>                    | 845,749               | <b>2,488,915</b>                 | 2,461,276             |
| Fees and commission income, net   | <b>241,270</b>                    | 227,606               | <b>804,871</b>                   | 720,624               |
| Exchange income, net  | <b>94,018</b>                     | 63,797                | <b>261,981</b>                   | 168,971               |
| Income (loss) from FVIS financial instruments, net                          | <b>240</b>                        | 295                   | <b>5,211</b>                     | (1,189)               |
| Trading income, net   | <b>12,405</b>                     | 5,539                 | <b>46,034</b>                    | 55,502                |
| Gains and impairment of non -trading investments, net                       | <b>2,717</b>                      | 20,641                | <b>26,648</b>                    | 75,782                |
| Dividend income   | <b>15,476</b>                     | 14,190                | <b>50,854</b>                    | 34,815                |
| Other operating income  | <b>21,852</b>                     | 9,919                 | <b>111,950</b>                   | 122,699               |
| <b>Total operating income</b>   | <b>1,264,787</b>                  | 1,187,736             | <b>3,796,464</b>                 | 3,638,480             |
| Salaries and employee related expenses                                      | <b>292,580</b>                    | 277,919               | <b>890,830</b>                   | 805,032               |
| Rent and premises related expenses  | <b>37,263</b>                     | 33,077                | <b>105,933</b>                   | 95,772                |
| Depreciation and amortization   | <b>46,249</b>                     | 47,197                | <b>140,395</b>                   | 145,591               |
| Other general and administrative expenses                                   | <b>126,451</b>                    | 112,422               | <b>343,527</b>                   | 338,844               |
| Impairment charges for credit losses, net                                   | <b>182,502</b>                    | 151,805               | <b>354,305</b>                   | 325,568               |
| <b>Total operating expenses</b>   | <b>685,045</b>                    | 622,420               | <b>1,834,990</b>                 | 1,710,807             |
| <b>Net operating income</b>   | <b>579,742</b>                    | 565,316               | <b>1,961,474</b>                 | 1,927,673             |
| Share in earnings of an associate   | <b>9,337</b>                      | 7,337                 | <b>26,441</b>                    | 18,741                |
| <b>Net income for the period</b>  | <b>589,079</b>                    | 572,653               | <b>1,987,915</b>                 | 1,946,414             |
| Loss (income) attributed to non-controlling interest                        | <b>118</b>                        | 48                    | <b>(2,049)</b>                   | (218)                 |
| <b>Net income for the period attributable to equity holders of the Bank</b> | <b>589,197</b>                    | 572,701               | <b>1,985,866</b>                 | 1,946,196             |
| <b>Basic and fully diluted earnings (in SAR per share)</b>                  | <b>0.69</b>                       | 0.67                  | <b>2.34</b>                      | 2.29                  |

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The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

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

|  | <u>For the three months ended</u> |                | <u>For the nine months ended</u> |                  |
|--|-----------------------------------|----------------|----------------------------------|------------------|
|  | <b>Sept 30, 2013</b>              | Sept 30, 2012  | <b>Sept 30, 2013</b>             | Sept 30, 2012    |
|  | <u>SAR'000</u>                    | <u>SAR'000</u> | <u>SAR'000</u>                   | <u>SAR'000</u>   |
| <b>Net income for the period</b>                     | <b><u>589,079</u></b>             | <u>572,653</u> | <b><u>1,987,915</u></b>          | <u>1,946,414</u> |
| <b>Other comprehensive income:</b>                   |                                   |                |                                  |                  |
| <b>Available for sale investments:</b>               |                                   |                |                                  |                  |
| - Net changes in fair value                          | <b>117,262</b>                    | 48,761         | <b>60,421</b>                    | 159,435          |
| - Transfers to interim consolidated income statement | <b>(2,658)</b>                    | (32,566)       | <b>(26,475)</b>                  | (85,157)         |
| <b>Cash flows hedges:</b>                            |                                   |                |                                  |                  |
| - Net changes in fair value                          | <b>22,342</b>                     | 340            | <b>(14,318)</b>                  | (2,456)          |
| - Transfers to interim consolidated income statement | <b>(4,178)</b>                    | (5,137)        | <b>(9,551)</b>                   | (24,471)         |
|  | <b><u>132,768</u></b>             | <u>11,398</u>  | <b><u>10,077</u></b>             | <u>47,351</u>    |
| <b>Total comprehensive income for the period</b>     | <b><u>721,847</u></b>             | <u>584,051</u> | <b><u>1,997,992</u></b>          | <u>1,993,765</u> |
| <b>Attributable to:</b>                              |                                   |                |                                  |                  |
| Equity holders of the bank                           | <b>721,965</b>                    | 584,099        | <b>1,995,943</b>                 | 1,993,547        |
| Non-controlling interest                             | <b>(118)</b>                      | (48)           | <b>2,049</b>                     | 218              |
| <b>Total comprehensive income for the period</b>     | <b><u>721,847</u></b>             | <u>584,051</u> | <b><u>1,997,992</u></b>          | <u>1,993,765</u> |

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the nine months ended September 30, 2013 and 2012**  
**(Unaudited)**

Attributable to equity holders of the Bank

| <u>2013</u>   | Note | Share capital<br>SAR'000 | Statutory reserve<br>SAR'000 | Other reserves<br>SAR'000 | Retained earnings<br>SAR'000 | Proposed dividend<br>SAR'000 | Total<br>SAR'000  | Non-controlling interest<br>SAR'000 | Total equity<br>SAR'000 |
|---|------|--------------------------|------------------------------|---------------------------|------------------------------|------------------------------|-------------------|-------------------------------------|-------------------------|
| Balance at beginning of the period                          |      | <b>8,500,000</b>         | <b>6,630,000</b>             | <b>244,618</b>            | <b>1,579,657</b>             | <b>850,000</b>               | <b>17,804,275</b> | <b>105,312</b>                      | <b>17,909,587</b>       |
| Net changes in fair value of cash flow hedges               |      |                          |                              | <b>(14,318)</b>           | -                            | -                            | <b>(14,318)</b>   | -                                   | <b>(14,318)</b>         |
| Net changes in fair value of available for sale investments |      |                          |                              | <b>60,421</b>             | -                            | -                            | <b>60,421</b>     | -                                   | <b>60,421</b>           |
| Transfers to interim consolidated statement of income       |      |                          |                              | <b>(36,026)</b>           | -                            | -                            | <b>(36,026)</b>   | -                                   | <b>(36,026)</b>         |
| Net comprehensive income for the period                     |      |                          |                              | <b>10,077</b>             | -                            | -                            | <b>10,077</b>     | -                                   | <b>10,077</b>           |
| Net income for the period                                   |      |                          |                              | -                         | <b>1,985,866</b>             | -                            | <b>1,985,866</b>  | <b>2,049</b>                        | <b>1,987,915</b>        |
| Total comprehensive income for the period                   |      |                          |                              | <b>10,077</b>             | <b>1,985,866</b>             | -                            | <b>1,995,943</b>  | <b>2,049</b>                        | <b>1,997,992</b>        |
| 2012 dividend   |      |                          |                              | -                         | -                            | <b>(850,000)</b>             | <b>(850,000)</b>  | -                                   | <b>(850,000)</b>        |
| <b>Balance at end of the period</b>                         |      | <b>8,500,000</b>         | <b>6,630,000</b>             | <b>254,695</b>            | <b>3,565,523</b>             | -                            | <b>18,950,218</b> | <b>107,361</b>                      | <b>19,057,579</b>       |

| <u>2012</u>   | Note | Share capital<br>SAR'000 | Statutory reserve<br>SAR'000 | Other reserves<br>SAR'000 | Retained earnings<br>SAR'000 | Proposed dividend<br>SAR'000 | Total<br>SAR'000  | Non-controlling interest<br>SAR'000 | Total equity<br>SAR'000 |
|---|------|--------------------------|------------------------------|---------------------------|------------------------------|------------------------------|-------------------|-------------------------------------|-------------------------|
| Balance at beginning of the period                          |      | <b>8,500,000</b>         | <b>6,030,000</b>             | <b>177,620</b>            | <b>1,066,440</b>             | <b>850,000</b>               | <b>16,624,060</b> | <b>105,465</b>                      | <b>16,729,525</b>       |
| Net changes in fair value of cash flow hedges               |      |                          |                              | <b>(2,456)</b>            | -                            | -                            | <b>(2,456)</b>    | -                                   | <b>(2,456)</b>          |
| Net changes in fair value of available for sale investments |      |                          |                              | <b>159,435</b>            | -                            | -                            | <b>159,435</b>    | -                                   | <b>159,435</b>          |
| Transfers to interim consolidated statement of income       |      |                          |                              | <b>(109,628)</b>          | -                            | -                            | <b>(109,628)</b>  | -                                   | <b>(109,628)</b>        |
| Net comprehensive income for the period                     |      |                          |                              | <b>47,351</b>             | -                            | -                            | <b>47,351</b>     | -                                   | <b>47,351</b>           |
| Net income for the period                                   |      |                          |                              | -                         | <b>1,946,196</b>             | -                            | <b>1,946,196</b>  | <b>218</b>                          | <b>1,946,414</b>        |
| Total comprehensive income for the period                   |      |                          |                              | <b>47,351</b>             | <b>1,946,196</b>             | -                            | <b>1,993,547</b>  | <b>218</b>                          | <b>1,993,765</b>        |
| 2011 dividend   |      |                          |                              | -                         | -                            | <b>(850,000)</b>             | <b>(850,000)</b>  | -                                   | <b>(850,000)</b>        |
| Balance at end of the period                                |      | <b>8,500,000</b>         | <b>6,030,000</b>             | <b>224,971</b>            | <b>3,012,636</b>             | -                            | <b>17,767,607</b> | <b>105,683</b>                      | <b>17,873,290</b>       |

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

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

|  | Note | Sept 30, 2013<br>SAR'000 | Sept 30, 2012<br>SAR'000 |
|--|------|--------------------------|--------------------------|
| <b><u>OPERATING ACTIVITIES</u></b>   |      |                          |                          |
| <b>Net income for the period</b>   |      | <b>1,987,915</b>         | 1,946,414                |
| <b>Adjustments to reconcile net income for the period to net cash from (used in) operating activities:</b> |      |                          |                          |
| Accretion of discounts on non-trading investments, net   |      | <b>(36,232)</b>          | (26,909)                 |
| Gains and impairment on non-trading investments, net   |      | <b>(26,648)</b>          | (75,782)                 |
| Depreciation and amortization  |      | <b>140,395</b>           | 145,591                  |
| Losses on disposal of property and equipment, net  |      | <b>822</b>               | 36                       |
| Share in earnings of an associate  |      | <b>(26,441)</b>          | (18,741)                 |
| Impairment charges for credit losses, net  |      | <b>354,305</b>           | 325,568                  |
|  |      | <b>2,394,116</b>         | 2,296,177                |
| <b>Net (increase) decrease in operating assets:</b>  |      |                          |                          |
| Statutory deposit with SAMA  |      | <b>(307,590)</b>         | (622,551)                |
| Due from banks and other financial institutions maturing after ninety days of the acquisition date         |      | -                        | 37,500                   |
| Investments held at FVIS   |      | <b>53,858</b>            | (275,310)                |
| Loans and advances   |      | <b>(170,280)</b>         | (11,143,193)             |
| Other real estate  |      | <b>182,372</b>           | (151,165)                |
| Other assets   |      | <b>(584,548)</b>         | 311,854                  |
| <b>Net increase (decrease) in operating liabilities:</b>   |      |                          |                          |
| Due to banks and other financial institutions  |      | <b>2,640,497</b>         | (3,410,245)              |
| Customers' deposits  |      | <b>(2,354,899)</b>       | 10,413,993               |
| Other liabilities  |      | <b>(378,748)</b>         | (311,505)                |
| <b>Net cash from (used in) operating activities</b>  |      | <b>1,474,778</b>         | (2,854,445)              |
| <b><u>INVESTING ACTIVITIES</u></b>   |      |                          |                          |
| Proceeds from sales of and matured non-trading investments   |      | <b>25,608,068</b>        | 54,495,166               |
| Purchase of non-trading investments  |      | <b>(29,436,892)</b>      | (54,422,177)             |
| Investment in associates   |      | -                        | (52,500)                 |
| Purchase of property and equipment   |      | <b>(230,022)</b>         | (180,023)                |
| Proceeds from disposal of property and equipment   |      | <b>236</b>               | 251                      |
| <b>Net cash used in investing activities</b>   |      | <b>(4,058,610)</b>       | (159,283)                |
| <b><u>FINANCING ACTIVITIES</u></b>   |      |                          |                          |
| Dividends paid   |      | <b>(842,808)</b>         | (842,946)                |
| <b>Net cash used in financing activities</b>   |      | <b>(842,808)</b>         | (842,946)                |
| <b>Decrease in cash and cash equivalents</b>   |      | <b>(3,426,640)</b>       | (3,856,674)              |
| Cash and cash equivalents at the beginning of the period   |      | <b>17,304,744</b>        | 10,241,180               |
| <b>Cash and cash equivalents at the end of the period</b>  | 9    | <b>13,878,104</b>        | 6,384,506                |
| Special commission received during the period  |      | <b>2,873,261</b>         | 2,698,700                |
| Special commission paid during the period  |      | <b>(434,133)</b>         | (307,902)                |
| <b><u>Supplemental non-cash information</u></b>  |      |                          |                          |
| Net changes in fair value  |      | <b>46,103</b>            | 156,979                  |

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes To The Interim Condensed Consolidated Financial Statements**  
**For the nine months ended September 30, 2013 and 2012**  
**(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 (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 148 branches (2012: 143 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 26 Shawal 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 Awal, 1430H (corresponding to May 10, 2009). The company is engaged in leasing of heavy equipments and operating 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.

**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.

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, 2012.

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

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**For the nine months ended September 30, 2013 and 2012**  
**(Unaudited)**  
**(SAR'000)**

## **2. Basis of preparation (continued)**

### **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 AHEL (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 all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from their activities, generally accompanying an ownership interest of more than one half of the voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Non-controlling interests represent the portion of net income and net assets not owned, directly or indirectly, by the Bank in its subsidiary and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated statement of financial position, separately from parent **shareholders' equity.**

Balances and any unrealised gains and losses arising from transactions between the Bank and its subsidiaries are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## **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, 2012 except for the adoption of the following standards which had no significant financial impact on the interim condensed financial statements of the Group.

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)
- **IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities** (Amendment)
- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

The Bank has chosen not to early adopt the following standards, which are effective for the Banks on or after 2014 financial reporting year.

- IFRS 10, IFRS 12 and IAS 27 investment entities (Amendments)
- IAS 32 offsetting Financial Assets and Financial Liabilities

In addition to the above, the Group has currently chosen not to adopt IFRS 9 (2010) – Financial instruments, which has been published, but will not be effective until January 1, 2015.

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



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**4. Investments, net**

Investments are classified as follows:

|  | <b>September 30,<br/>2013<br/>(Unaudited)</b> | December 31,<br>2012<br>(Audited) | September 30,<br>2012<br>(Unaudited) |
|--|---|-----------------------------------|--------------------------------------|
| Held at fair value through income statement (FVIS) | <b>24,320</b>                                 | 78,178                            | 359,632                              |
| Available for sale                                 | <b>12,171,981</b>                             | 9,284,603                         | 10,617,871                           |
| Held at amortized cost, net                        | <b>16,153,673</b>                             | 14,960,266                        | 15,489,122                           |
| <b>Total</b>                                       | <b>28,349,974</b>                             | 24,323,047                        | 26,466,625                           |

**5. Loans and advances, net**

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

|   | <b>September 30,<br/>2013<br/>(Unaudited)</b> | December 31,<br>2012<br>(Audited) | September 30,<br>2012<br>(Unaudited) |
|---|---|-----------------------------------|--------------------------------------|
| Commercial loans and overdrafts           | <b>64,354,509</b>                             | 65,479,763                        | 62,782,391                           |
| Consumer loans                            | <b>22,893,698</b>                             | 21,839,949                        | 21,708,635                           |
| Credit cards                              | <b>371,701</b>                                | 392,840                           | 415,065                              |
| Performing loans and advances             | <b>87,619,908</b>                             | 87,712,552                        | 84,906,091                           |
| Non-performing loans and advances, net    | <b>1,388,402</b>                              | 1,314,784                         | 1,383,334                            |
| Gross loans and advances                  | <b>89,008,310</b>                             | 89,027,336                        | 86,289,425                           |
| Impairment charges for credit losses, net | <b>(2,894,570)</b>                            | (2,698,728)                       | (2,636,334)                          |
| <b>Loans and advances, net</b>            | <b>86,113,740</b>                             | 86,328,608                        | 83,653,091                           |

**6. Customers' deposits**

|              | <b>September 30,<br/>2013<br/>(Unaudited)</b> | December 31,<br>2012<br>(Audited) | September 30,<br>2012<br>(Unaudited) |
|--------------|---|-----------------------------------|--------------------------------------|
| Demand       | <b>55,718,098</b>                             | 52,349,494                        | 51,793,107                           |
| Time         | <b>46,648,309</b>                             | 51,248,571                        | 43,277,769                           |
| Saving       | <b>103,048</b>                                | 103,598                           | 100,752                              |
| Others       | <b>2,736,089</b>                              | 3,858,780                         | 3,101,180                            |
| <b>Total</b> | <b>105,205,544</b>                            | 107,560,443                       | 98,272,808                           |

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**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.

|   | September 30, 2013<br>(Unaudited) |                     |                   | December 31, 2012<br>(Audited) |                     |                 | September 30, 2012<br>(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 |
| <b>Derivatives held for trading:</b>          |                                   |                     |                   |                                |                     |                 |                                   |                     |                 |
| Commission rate swaps                         | <b>128,975</b>                    | <b>124,521</b>      | <b>6,865,578</b>  | 70,566                         | 63,595              | 6,941,399       | 70,373                            | 65,135              | 5,032,830       |
| Commission rate futures and options           | -                                 | -                   | <b>7,480,129</b>  | -                              | -                   | -               | 703                               | -                   | 1,993,975       |
| Forward foreign exchange contracts            | <b>63,652</b>                     | <b>35,371</b>       | <b>7,454,226</b>  | 82,169                         | 56,295              | 15,493,676      | 90,138                            | 58,546              | 15,882,247      |
| Currency options                              | <b>30,038</b>                     | <b>30,018</b>       | <b>9,989,099</b>  | 6,632                          | 492                 | 5,896,813       | 5,893                             | 1,537               | 6,224,073       |
| <b>Derivatives held as fair value hedges:</b> |                                   |                     |                   |                                |                     |                 |                                   |                     |                 |
| Commission rate swaps                         | <b>4,457</b>                      | <b>97,827</b>       | <b>1,426,475</b>  | 5,990                          | 136,934             | 3,514,880       | 2,576                             | 147,510             | 3,735,003       |
| <b>Derivatives held as cash flow hedges:</b>  |                                   |                     |                   |                                |                     |                 |                                   |                     |                 |
| Commission rate swaps                         | -                                 | <b>25,762</b>       | <b>1,725,000</b>  | -                              | -                   | -               | -                                 | 356                 | 712,500         |
| <b>Total</b>                                  | <b>227,122</b>                    | <b>313,499</b>      | <b>34,940,507</b> | 165,357                        | 257,316             | 31,846,768      | 169,683                           | 273,084             | 33,580,628      |

**8. Credit related commitments and contingencies**

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

|  | September 30,<br>2013 (Unaudited) | December 31,<br>2012 (Audited) | September 30,<br>2012 (Unaudited) |
|--|-----------------------------------|--------------------------------|-----------------------------------|
| Letters of credit                        | <b>5,888,762</b>                  | 8,067,242                      | 6,745,850                         |
| Letters of guarantee                     | <b>25,243,238</b>                 | 25,035,170                     | 23,193,075                        |
| Acceptances                              | <b>1,772,555</b>                  | 2,471,696                      | 1,976,151                         |
| Irrevocable commitments to extend credit | <b>2,533,019</b>                  | 1,327,141                      | 1,869,918                         |
| Other                                    | <b>155,112</b>                    | 166,375                        | 174,572                           |
| <b>Total</b>                             | <b>35,592,686</b>                 | 37,067,624                     | 33,959,566                        |

**9. Cash and cash equivalents**

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

|   | September 30,<br>2013<br>(Unaudited) | December 31,<br>2012<br>(Audited) | September 30,<br>2012<br>(Unaudited) |
|---|--------------------------------------|-----------------------------------|--------------------------------------|
| Cash and balances with SAMA excluding statutory deposit   | <b>8,978,988</b>                     | 15,063,820                        | 3,482,827                            |
| Due from banks and other financial institutions maturing within ninety days of the acquisition date | <b>4,899,116</b>                     | 2,240,924                         | 2,901,679                            |

|              |                   |            |           |
|--------------|-------------------|------------|-----------|
| <b>Total</b> | <b>13,878,104</b> | 17,304,744 | 6,384,506 |
|--------------|-------------------|------------|-----------|

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**10. Operating segments**

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch located in London, UK (the "branch"). However, the total assets, liabilities, commitments and results of operations of the branch are not material to the Group's overall interim condensed consolidated financial statements. All operating segments used by the Group meet the definition of reportable segments under IFRS 8.

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances.

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, 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.

The Group's total consolidated assets and liabilities as at September 30, 2013 and 2012, its total interim consolidated operating income, expenses and net income and other related information for the nine months period then ended, by operating segments, as reported to senior management, are as follows:

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**10 Operating segments (continued)**

| <b>September 30, 2013 (Unaudited)</b>         |                       |                          |                         |  |                  |                    |
|---|-----------------------|--------------------------|-------------------------|--|------------------|--------------------|
|   | <b>Retail banking</b> | <b>Corporate banking</b> | <b>Treasury banking</b> | <b>Investment and brokerage services</b> | <b>Other</b>     | <b>Total</b>       |
| Total assets                                  | <b>32,331,854</b>     | <b>58,675,683</b>        | <b>44,154,751</b>       | <b>54,935</b>                            | <b>2,670,143</b> | <b>137,887,366</b> |
| Total liabilities                             | <b>54,783,946</b>     | <b>52,884,277</b>        | <b>11,023,375</b>       | <b>37,077</b>                            | <b>101,112</b>   | <b>118,829,787</b> |
| Total operating income                        | <b>1,584,384</b>      | <b>1,321,767</b>         | <b>679,604</b>          | <b>89,424</b>                            | <b>121,285</b>   | <b>3,796,464</b>   |
| Total operating expenses                      | <b>1,157,188</b>      | <b>531,972</b>           | <b>70,409</b>           | <b>57,088</b>                            | <b>18,333</b>    | <b>1,834,990</b>   |
| Share in earnings of an associate             | -                     | -                        | -                       | -  | <b>26,441</b>    | <b>26,441</b>      |
| Income attributed to non-controlling interest | -                     | -                        | -                       | -  | <b>(2,049)</b>   | <b>(2,049)</b>     |
| Impairment charges for credit losses, net     | <b>154,541</b>        | <b>199,764</b>           | -                       | -  | -                | <b>354,305</b>     |
| Depreciation and amortization                 | <b>102,938</b>        | <b>2,240</b>             | <b>2,707</b>            | <b>4,708</b>                             | <b>27,802</b>    | <b>140,395</b>     |
| Net income for the period                     | <b>427,196</b>        | <b>789,795</b>           | <b>609,195</b>          | <b>32,336</b>                            | <b>127,344</b>   | <b>1,985,866</b>   |

| <b>September 30, 2012 (Unaudited)</b>         |                       |                          |                         |  |              |              |
|---|-----------------------|--------------------------|-------------------------|--|--------------|--------------|
|   | <b>Retail banking</b> | <b>Corporate banking</b> | <b>Treasury banking</b> | <b>Investment and brokerage services</b> | <b>Other</b> | <b>Total</b> |
| Total assets                                  | 30,531,285            | 57,178,723               | 34,772,208              | 56,936                                   | 2,808,869    | 125,348,021  |
| Total liabilities                             | 50,182,170            | 50,128,510               | 7,038,078               | 38,299                                   | 87,674       | 107,474,731  |
| Total operating income                        | 1,613,296             | 1,138,250                | 688,979                 | 117,042                                  | 80,913       | 3,638,480    |
| Total operating expenses                      | 1,048,483             | 468,777                  | 59,028                  | 67,464                                   | 67,055       | 1,710,807    |
| Share in earnings of an associate             | -                     | -                        | -                       | -  | 18,741       | 18,741       |
| Income attributed to non-controlling interest | -                     | -                        | -                       | -  | (218)        | (218)        |
| Impairment charges for credit losses, net     | 130,436               | 195,132                  | -                       | -  | -            | 325,568      |
| Depreciation and amortization                 | 117,956               | 2,511                    | 3,121                   | 5,411                                    | 16,592       | 145,591      |
| Net income for the period                     | 564,813               | 669,473                  | 629,951                 | 49,578                                   | 32,381       | 1,946,196    |

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**11. Share capital and earnings per share**

At September 30, 2013, the Bank has 850 million shares of SAR 10 each (September 30, 2012: 850 million shares) issued and outstanding.

Basic and diluted earnings per share for the periods ended September 30, 2013 and 2012 are calculated by dividing the net income for the periods by 850 million 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>2013</u>                              | <u>Level 1</u>           | <u>Level 2</u>          | <u>Level 3</u>       | <u>Total</u>             |
|--|--------------------------|-------------------------|----------------------|--------------------------|
| <b>Financial assets</b>                  |                          |                         |                      |                          |
| Financial assets designated at FVIS      | -                        | <b>24,320</b>           | -                    | <b>24,320</b>            |
| Financial investments available for sale | <b>10,196,034</b>        | <b>1,910,264</b>        | <b>65,683</b>        | <b>12,171,981</b>        |
| Derivative financial instruments         | <b>63,652</b>            | <b>163,470</b>          | -                    | <b>227,122</b>           |
| <b>Total</b>                             | <b><u>10,259,686</u></b> | <b><u>2,098,054</u></b> | <b><u>65,683</u></b> | <b><u>12,423,423</u></b> |
| <b>Financial Liabilities</b>             |                          |                         |                      |                          |
| Derivative financial instruments         | <b><u>35,371</u></b>     | <b><u>278,128</u></b>   | -                    | <b><u>313,499</u></b>    |
| <b>Total</b>                             | <b><u>35,371</u></b>     | <b><u>278,128</u></b>   | -                    | <b><u>313,499</u></b>    |

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 16.2 billion at 30 September 2013.

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

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 30 September 2013, is SAR 70 million (30 September 2012: SAR 134 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:

|                                      | <b>September<br/>30, 2013<br/>(Unaudited)</b> | September 30,<br>2012<br>(Unaudited) |
|--------------------------------------|---|--------------------------------------|
| Credit Risk RWA                      | <b>114,387,626</b>                            | 107,450,482                          |
| Operational Risk RWA                 | <b>9,579,842</b>                              | 8,612,275                            |
| Market Risk RWA                      | <b>793,364</b>                                | 2,887,290                            |
| <b>Total Pillar-I RWA</b>            | <b>124,760,832</b>                            | 118,950,047                          |
| <br>                                 |   |                                      |
| Tier I Capital                       | <b>18,950,218</b>                             | 15,685,278                           |
| Tier II Capital                      | <b>1,382,385</b>                              | 3,525,513                            |
| <b>Total Tier I &amp; II Capital</b> | <b>20,332,603</b>                             | 19,210,791                           |
| <br>                                 |   |                                      |
| <b>Capital Adequacy Ratio %</b>      |   |                                      |
| Tier I ratio                         | <b>15.19%</b>                                 | 13.19%                               |
| Tier I + Tier II ratio               | <b>16.30%</b>                                 | 16.15%                               |

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.

For the purposes of presentation, the RWAs, total capital and related ratios as at September 30, 2013 are calculated using the framework methodologies defined under the Basel III framework. The comparative balances and ratios as at September 30, 2012 are calculated under Basel II and have not been restated.

**14. Comparative figures**

Certain prior period figures have been reclassified to conform with current period presentation.

**15. BASEL III capital structure disclosures**

Certain 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](http://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.