



Arab National Bank
(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements
For the period ended 30 September 2017

Independent Auditors' Review Report on the
Interim Condensed Consolidated Financial Statements

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

Introduction:

We have reviewed the accompanying interim consolidated statement of financial position of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 September 2017, and the related interim consolidated statements of income and comprehensive income for the three and nine month periods then ended and the related interim consolidated statements of changes in equity and cash flows for the nine month period then ended and explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

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

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at 30 September 2017 are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and tax.

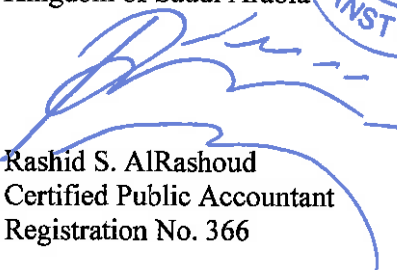
Other Regulatory Matters:

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

Ernst & Young

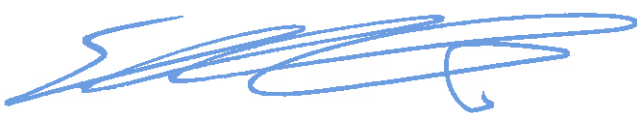
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(25 October 2017)



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

As at	Notes	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited) (Restated)
ASSETS				
Cash and balances with SAMA		12,612,587	19,503,973	12,836,104
Due from banks and other financial institutions		3,249,371	4,030,850	7,630,949
Positive fair value of derivatives	8	735,798	459,770	295,062
Investments, net	5	25,759,420	25,548,399	25,665,602
Loans and advances, net	6	115,931,970	115,511,521	115,624,770
Investments in associates		631,527	616,395	610,549
Other real estate		220,697	136,634	136,634
Investment property, net		1,632,862	1,651,363	1,657,698
Property and equipment, net		1,716,110	1,839,222	1,883,245
Other assets		1,152,836	710,595	922,838
Total assets		<u>163,643,178</u>	<u>170,008,722</u>	<u>167,263,451</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		2,966,452	3,858,871	9,656,198
Negative fair value of derivatives	8	696,138	439,789	330,980
Customers' deposits	7	128,546,906	135,907,457	128,235,909
Other liabilities		4,663,617	3,859,862	3,845,445
Sukuk		2,033,104	2,018,190	2,032,326
Total liabilities		<u>138,906,217</u>	<u>146,084,169</u>	<u>144,100,858</u>
Equity				
Equity attributed to equity holders of the Bank				
Share capital	12	10,000,000	10,000,000	10,000,000
Statutory reserve		9,446,000	9,446,000	8,732,000
Available-for-sale financial assets reserve		46,198	166,514	(172,753)
Retained earnings		4,550,683	3,172,847	3,884,812
Proposed dividends		-	450,000	-
Total equity attributed to equity holders of the Bank		<u>24,042,881</u>	<u>23,235,361</u>	<u>22,444,059</u>
Non-controlling interests		694,080	689,192	718,534
Total equity		<u>24,736,961</u>	<u>23,924,553</u>	<u>23,162,593</u>
Total liabilities and equity		<u>163,643,178</u>	<u>170,008,722</u>	<u>167,263,451</u>

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

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

	Note	For the three month period ended		For the nine month period ended	
		September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Special commission income		1,489,116	1,489,321	4,524,821	4,196,764
Special commission expense		305,178	422,361	1,056,594	1,081,904
Net special commission income		1,183,938	1,066,960	3,468,227	3,114,860
Fees and commission income, net		206,613	251,119	732,231	818,459
Exchange income, net		100,455	110,176	308,835	355,544
Unrealized gain/(loss) on FVIS financial investments, net		-	2,847	31	(2,966)
Trading income /(loss), net		2,560	(1,320)	18,827	6,633
Dividend income		22,535	16,052	51,604	45,611
Gains on non-trading investments, net		127,840	24,640	136,322	47,923
Other operating income, net		32,808	23,494	77,215	72,799
Total operating income		1,676,749	1,493,968	4,793,292	4,458,863
Salaries and employee related expenses		323,338	317,338	931,238	978,824
Rent and premises related expenses		39,903	43,444	132,098	125,311
Depreciation and amortization		55,154	57,783	167,605	176,048
Other general and administrative expenses		156,215	132,469	412,707	408,486
Impairment charges for credit and other losses, net		327,629	195,831	771,206	461,137
Impairment charges for investment, net		5,970	28,792	5,970	37,645
Total operating expenses		908,209	775,657	2,420,824	2,187,451
Net operating income		768,540	718,311	2,372,468	2,271,412
Share in earnings of associates, net		8,445	6,377	24,963	26,432
Net income for the period		776,985	724,688	2,397,431	2,297,844
Attributable to:					
Equity holders of the Bank		775,459	721,671	2,392,543	2,288,846
Non-controlling interests		1,526	3,017	4,888	8,998
Net income for the period		776,985	724,688	2,397,431	2,297,844
Basic and diluted earnings (in SAR per share)	12	0.78	0.72	2.40	2.30

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

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

	For the three month period ended		For the nine month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income for the period	776,985	724,688	2,397,431	2,297,844
Other comprehensive income:				
Items that are or may be reclassified to interim consolidated statement of income in subsequent periods				
Available for sale investments:				
- Net changes in fair value	(39,336)	(125,507)	9,840	(264,526)
- Net amounts transferred to interim consolidated statement of income	(121,870)	4,152	(130,156)	(10,278)
Total other comprehensive loss for the period	(161,206)	(121,355)	(120,316)	(274,804)
Total comprehensive income for the period	615,779	603,333	2,277,115	2,023,040
Attributable to:				
Equity holders of the Bank	614,253	600,316	2,272,227	2,014,042
Non-controlling interest	1,526	3,017	4,888	8,998
Total comprehensive income for the period	615,779	603,333	2,277,115	2,023,040

The accompanying notes 1 to 17 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 month period ended September 30, 2017 and 2016
(Unaudited)
(SAR'000)

		<u>Attributable to equity holders of the Bank</u>								
		Share capital	Statutory reserve	Available for sale financial assets reserve	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity	
	Notes									
2017										
Balance at the beginning of the period		10,000,000	9,446,000	166,514	3,172,847	450,000	23,235,361	689,192	23,924,553	
Changes in equity for the period:										
Net changes in fair values of available for sale investments				9,840	-	-	9,840	-	9,840	
Net amounts transferred to interim consolidated statement of income				(130,156)	-	-	(130,156)	-	(130,156)	
Net income for the period				-	2,392,543	-	2,392,543	4,888	2,397,431	
Total comprehensive income for the period				(120,316)	2,392,543	-	2,272,227	4,888	2,277,115	
2016 final dividends		-	-	-	-	(450,000)	(450,000)	-	(450,000)	
2017 interim dividends	13	-	-	-	(550,000)	-	(550,000)	-	(550,000)	
Zakat for the current period	4(a)	-	-	-	(279,074)	-	(279,074)	-	(279,074)	
Income tax for the current period	4(a)	-	-	-	(185,633)	-	(185,633)	-	(185,633)	
Balance at the end of the period		10,000,000	9,446,000	46,198	4,550,683	-	24,042,881	694,080	24,736,961	

Attributable to equity holders of the Bank

2016 (Restated)

	Notes	Share capital	Statutory reserve	Available for sale financial assets reserve	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
Balance at the beginning of the period		10,000,000	8,732,000	102,051	2,509,946	550,000	21,893,997	737,856	22,631,853
Changes in equity for the period:									
Net changes in fair values of available for sale investments				(264,526)	-	-	(264,526)	-	(264,526)
Net amounts transferred to interim consolidated statement of income				(10,278)	-	-	(10,278)	-	(10,278)
Net income for the period				-	2,288,846	-	2,288,846	8,998	2,297,844
Total comprehensive income for the period				(274,804)	2,288,846	-	2,014,042	8,998	2,023,040
Distributions from a subsidiary		-	-	-	-	-	-	(28,320)	(28,320)
2015 final dividends		-	-	-	-	(550,000)	(550,000)	-	(550,000)
2016 interim dividends	13	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Zakat for the current period - restated	16(b)	-	-	-	(277,423)	-	(277,423)	-	(277,423)
Income tax for the current period - restated	16(b)	-	-	-	(186,557)	-	(186,557)	-	(186,557)
Balance at the end of the period		10,000,000	8,732,000	(172,753)	3,884,812	-	22,444,059	718,534	23,162,593

The accompanying notes 1 to 17 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 month period ended
(Unaudited)
(SAR'000)

	Note	September 30, 2017	September 30, 2016
<u>OPERATING ACTIVITIES</u>			
Net income for the period		2,397,431	2,297,844
Adjustments to reconcile net income to net cash used in operating activities for the period:			
Accretion of premiums/(discounts) on non-trading investments, net		3,247	(11,733)
Special commission expense on sukuk		53,862	45,038
Gains on non-trading investments, net		(136,322)	(47,923)
Unrealized (gains)/losses on FVIS financial investments, net		(31)	2,966
Dividend income		(51,604)	(45,611)
Depreciation of investment property		18,501	18,600
Depreciation and amortization of property and equipment		167,605	176,048
Losses on disposal of property and equipment, net		4,839	214
Share in earnings of associates, net		(24,963)	(26,432)
Impairment charges for investments, net		5,970	37,645
Impairment charges for credit and other losses, net		771,206	461,137
		3,209,741	2,907,793
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(182,303)	340,095
Investments held at FVIS		757	1,317,433
Positive fair value of derivatives		(276,028)	(4,904)
Loans and advances, net		(1,256,151)	(470,479)
Other assets		(442,241)	(58,033)
Other real estate		-	23,259
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(892,419)	3,983,085
Negative fair value of derivatives		256,349	(7,969)
Customers' deposits		(7,360,551)	(7,525,285)
Other liabilities		357,098	(644,215)
		(6,585,748)	(139,220)
Net cash used in operating activities		(6,585,748)	(139,220)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		3,663,620	20,666,494
Purchase of non-trading investments		(3,902,677)	(14,558,538)
Investment in associates		-	(52,500)
Purchase of investment property		-	(432)
Purchase of property and equipment		(51,500)	(118,147)
Proceeds from sale of property and equipment		2,168	4,060
Dividends received		51,604	45,611
		(236,785)	5,986,548
Net cash (used in) from investing activities		(236,785)	5,986,548
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(993,686)	(991,268)
Special commission paid on sukuk		(38,948)	(23,982)
Non-controlling interest		-	(28,320)
		(1,032,634)	(1,043,570)
Net (decrease) increase in cash and cash equivalents		(7,855,167)	4,803,758
Cash and cash equivalents at the beginning of the period		16,347,323	8,680,518
Cash and cash equivalents at the end of the period	10	8,492,156	13,484,276
Special commission received during the period		4,264,184	4,134,550
Special commission paid during the period		(985,185)	(1,077,136)
<u>Supplemental non-cash information</u>			
Net changes in fair value of available for sale investments		9,840	(264,526)

The accompanying notes 1 to 17 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 month period ended September 30, 2017 and 2016
(Unaudited)
(SAR'000)

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 144 branches (2016: 151 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

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

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

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

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary (directly and indirectly), a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiary commenced its operations effective on Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008. On Muharram 19, 1436H (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437 H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

Arabian Heavy Equipment Leasing Company (AHEL)

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

ANB Insurance Agency

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

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase of lands and real estates and invest them through sale or rent in favor of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine month period ended September 30, 2017 and 2016
(Unaudited)
(SAR'000)

1. General (continued)

ANBI Business Gate Fund (the Fund)

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

ANB Global Markets Limited

The Bank established on January 31, 2017 ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% ownership. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

2. Basis of preparation

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

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

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the nine-month period ended September 30, 2017 have been prepared using the International Accounting Standard (IAS) 34 – Interim Financial Reporting and SAMA guidance for the accounting of zakat and tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards ("IFRS"). This change in framework resulted in a change in accounting policy for zakat and income tax (as disclosed in note 4(a)) and the effects of this change are disclosed in note 16 to the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2016.

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

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine month period ended September 30, 2017 and 2016
(Unaudited)
(SAR'000)

3. Basis of consolidation

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

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

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

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

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

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

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

If the Group loses control over a subsidiary, it:

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

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated statement of financial position, separately from the equity holders of the Bank. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

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

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the nine month period ended September 30, 2017 and 2016
(Unaudited)
(SAR'000)

4. Significant Accounting policies

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

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

The Group amended its accounting policy relating to zakat and income tax and have started to accrue zakat and income tax on a quarterly basis and charging it to retained earnings. Previously, zakat and income tax were deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. In case no dividends were paid, zakat and income tax were accounted for as part of the appropriation of retained earnings. The Group has accounted for this change in the accounting policy relating to zakat and income tax retrospectively and the effects of the above change are disclosed in note 16 to the interim condensed consolidated financial statements.

b) Adoption of the following amendments to existing standards mentioned below which have had no significant financial impact on the interim condensed consolidated financial statements of the Group in the current or prior periods and are expected to have no significant effect in future periods:

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

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

5. Investments, net

Investments are classified as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited)
Designated as fair value through income statement (FVIS)	-	726	158
Available for sale	8,356,154	9,457,044	9,607,453
Other investments held at amortized cost	17,403,266	16,090,629	16,057,991
Total	25,759,420	25,548,399	25,665,602

6. Loans and advances, net

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited)
Commercial loans and overdrafts	92,766,169	91,307,234	90,771,481
Consumer loans	24,313,934	25,410,888	25,965,434
Credit cards	535,801	504,504	524,360
Performing loans and advances	117,615,904	117,222,626	117,261,275
Non-performing loans and advances, net	1,249,765	1,006,686	1,029,804
Gross loans and advances	118,865,669	118,229,312	118,291,079
Impairment charges for credit losses, net	(2,933,699)	(2,717,791)	(2,666,309)
Loans and advances, net	115,931,970	115,511,521	115,624,770

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7. Customers' deposits

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited)
Demand	65,456,764	65,092,740	64,437,462
Time	59,568,064	65,003,835	60,594,766
Saving	89,338	93,124	77,107
Others	3,432,740	5,717,758	3,126,574
Total	128,546,906	135,907,457	128,235,909

8. Derivatives

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

	September 30, 2017 (Unaudited)			December 31, 2016 (Audited)			September 30, 2016 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Commission rate and cross currency swaps	341,169	316,604	19,684,561	126,909	119,737	8,593,057	77,511	69,708	7,530,832
Commission rate futures and options	292,074	288,703	10,395,596	138,665	133,890	10,174,085	12,232	7,287	3,924,932
Forward foreign exchange and commodity contracts	62,334	27,389	5,117,287	131,360	97,055	10,346,134	106,870	67,400	12,780,320
Currency and commodity options	12,350	12,204	2,919,851	36,558	35,030	7,704,165	48,330	46,944	10,147,959
Held as fair value hedges:									
Commission rate swaps	27,871	51,238	11,124,727	26,278	54,077	8,689,459	50,119	139,641	10,957,699
Total	735,798	696,138	49,242,022	459,770	439,789	45,506,900	295,062	330,980	45,341,742

Derivatives have been disclosed at gross amounts as at the date of the interim consolidated statement of financial position, and have not been netted off by cash margins placed and received against derivatives, amounting to SAR 105,491 thousands (December 31, 2016: SAR 12,290 thousands, and September 30, 2016: SAR 55,368 thousands).

9. Credit related commitments and contingencies

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

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited)
Letters of credit	4,240,590	3,976,896	4,377,829
Letters of guarantee	22,732,279	25,114,398	25,378,802
Acceptances	1,567,585	1,619,502	1,381,274
Irrevocable commitments to extend credit	2,217,653	3,010,172	2,730,537
Other	96,482	101,726	103,580
Total	30,854,589	33,822,694	33,972,022

The unutilized portion of non-firm commitments as at September 30, 2017 which can be revoked unilaterally at any time by the Bank, amounts SAR 14,255 million (December 31, 2016: SAR 18,591 million and September 30, 2016: SAR 17,684 million).

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10. Cash and cash equivalents

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	5,242,785	12,316,473	5,853,327
Due from banks and other financial institutions maturing within 90 days from the acquisition date	3,249,371	4,030,850	7,630,949
Total	8,492,156	16,347,323	13,484,276

11. Operating segments

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

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury

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

Investment and brokerage services

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

Other

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

Transactions between the operating segments are reported as recorded in the Group's transfer pricing system. The Group has amended the transfer pricing methodology, effective from January 1, 2016 to enhance the business segment reporting. These changes have been applied retrospectively, hence the basis for determining intersegment operating income/(expense) for the current period are consistent with the basis used for September 30, 2016. Segment assets and liabilities comprise mainly operating assets and liabilities.

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

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11. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at September 30, 2017 and 2016, its total operating income, expenses and net income for the nine months then ended, by operating segments, are as follows:

September 30, 2017 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	36,551,018	84,377,317	38,804,571	1,718,639	2,191,633	163,643,178
Investments in associates	-	-	-	-	631,527	631,527
Total liabilities	66,341,458	65,465,521	4,742,859	129,455	2,226,924	138,906,217
Operating income from external customers	1,531,930	2,957,485	87,477	123,766	92,634	4,793,292
Intersegment operating income/(expense)	246,007	(1,128,919)	805,156	-	77,756	-
Total operating income	1,777,937	1,828,566	892,633	123,766	170,390	4,793,292
Of which:						
Net special commission income	1,508,204	1,475,671	380,086	14,261	90,005	3,468,227
Fees and commission income, net	226,168	379,558	9,882	47,262	69,361	732,231
Impairment charges for credit and other losses, net	244,426	526,780	-	-	-	771,206
Impairment charges for investments, net	-	-	5,970	-	-	5,970
Depreciation and amortization	88,013	4,029	2,871	1,716	70,976	167,605
Total operating expenses	1,299,905	904,110	74,072	71,768	70,969	2,420,824
Share in earnings of associates, net	-	-	-	-	24,963	24,963
Net income attributed to equity holders of the Bank	478,032	924,456	818,561	51,998	119,496	2,392,543
Net income attributed to non-controlling interest	-	-	-	-	4,888	4,888
September 30, 2016 (Restated) (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,383,919	80,578,621	42,457,518	1,731,686	2,111,707	167,263,451
Investments in associates	-	-	-	-	610,549	610,549
Total liabilities	67,163,964	63,249,985	11,684,680	136,351	1,865,878	144,100,858
Operating income / (expense) from external customers	1,665,260	2,852,012	(174,280)	100,363	15,508	4,458,863
Intersegment operating income/(expense)	164,887	(1,265,115)	974,735	-	125,493	-
Total operating income	1,830,147	1,586,897	800,455	100,363	141,001	4,458,863
Of which:						
Net special commission income	1,473,207	1,154,416	373,710	(16,369)	129,896	3,114,860
Fees and commission income, net	252,293	440,268	7,408	53,093	65,397	818,459
Impairment charges for credit and other losses, net	222,411	238,726	-	-	-	461,137
Impairment charges for investments, net	-	-	37,645	-	-	37,645
Depreciation and amortization	98,091	2,546	2,668	2,994	69,749	176,048
Total operating expenses	1,308,265	629,474	115,290	68,951	65,471	2,187,451
Share in earnings of associates, net	-	-	-	-	26,432	26,432
Net income attributed to equity holders of the Bank	521,882	957,423	685,165	31,412	92,964	2,288,846
Net income attributed to non-controlling interest	-	-	-	-	8,998	8,998

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12. Share capital / Basic and diluted earnings per share

As at September 30, 2017, the authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (December 31, 2016 and September 30, 2016: 1,000 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended September 30, 2017 and 2016 are calculated by dividing the net income for the period attributable to equity holders of the Bank by 1,000 million shares. The diluted earnings per share is the same as the basic earnings per share.

13. Interim Dividends

The Board of Directors has approved an interim dividend of SAR 550 million for distribution to the shareholders from the net income for the period ended September 30, 2017 (September 30, 2016: SAR 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.55 per share, net (September 30, 2016: SAR 0.45 per share, net).

14. Fair values of financial assets and liabilities

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

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

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

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

a. Carrying amounts and fair value

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

Financial assets	September 30, 2017 (Unaudited)	Carrying value	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at fair value						
Available for sale investments		8,356,154	7,416,873	929,764	9,517	8,356,154
Positive fair value of derivatives		735,798	-	735,798	-	735,798
Financial assets not measured at fair value						
Due from banks and other financial institutions		3,249,371	-	-	-	3,249,371
Other investments at amortised cost		17,403,266	510,949	16,806,428	-	17,317,377
Loans and advances		115,931,970	-	-	117,578,231	117,578,231

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

a. Carrying amounts and fair value (continued)

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

Financial Liabilities

September 30, 2017 (Unaudited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value of derivatives	696,138	-	696,138	-	696,138
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	2,966,452	-	-	-	2,966,452
Customer deposits	128,546,906	-	-	-	128,546,906
Sukuk	2,033,104	-	-	2,000,027	2,000,027

December 31, 2016 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value of derivatives	439,789	-	439,789	-	439,789
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,858,871	-	-	-	3,858,871
Customer deposits	135,907,457	-	-	-	135,907,457
Sukuk	2,018,190	-	-	1,924,556	1,924,556

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

b. Measurement of fair values

i. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at September 30, 2017 and December 31, 2016 as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
FVIS investments	Fair value is determined based on the fund's most recent reported net assets value of the funds.	None	Not applicable
Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available.	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	None	Not applicable
Available for sale investments classified as Level 3 include Private Equity Funds	Fair value is determined based on the fund's most recent reported net assets value of the funds.	None	Not applicable
Derivatives classified as Level 2 are comprised of over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency and commodity options and other derivative financial instruments	These instruments are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs on these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.	None	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include loans and advances, investments held at amortized cost, and debt issuances.	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to the credit spreads to account for any potential model discrepancy or any stressed market conditions.	The higher is the credit spread, the lower is the valuation; vice versa.

ii. Transfer between levels of the fair value hierarchy

There have been no transfers within levels of the fair value hierarchy during the nine months period ended September 30, 2017 and 2016.

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

b. Measurement of fair values (continued)

iii. Level 3 fair values

Reconciliation of Level 3 fair values

Financial investments designated as available for sale:

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

	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
Balance at the beginning of the period	24,215	85,794
Total losses in other comprehensive income	(39)	(7,844)
Settlements	(14,659)	(52,622)
Balance at the end of the period	9,517	25,328

15. Capital Adequacy

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

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

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	September 30, 2016 (Unaudited) (Restated)
Credit Risk RWA	143,487,130	142,002,565	144,621,427
Operational Risk RWA	13,269,300	12,892,057	12,881,909
Market Risk RWA	1,703,666	933,982	772,969
Total Pillar-I RWA	158,460,096	155,828,604	158,276,305
Tier I Capital	24,042,881	22,785,361	22,444,059
Tier II Capital	3,066,451	2,881,451	2,881,451
Total Tier I & II Capital	27,109,332	25,666,812	25,325,510
Capital Adequacy Ratio %			
Tier I ratio	15.17%	14.62%	14.18%
Tier I + Tier II ratio	17.11%	16.47%	16.00%

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

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16. Comparative figures

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

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

September 30, 2016 (unaudited) For the three months period ended	As originally reported	Reclassification	Amounts reported after reclassification
Other operating income, net	39,890	(16,396)	23,494
Impairment charges for credit losses, net	(212,227)	16,396	(195,831)
	<u>(172,337)</u>	<u>-</u>	<u>(172,337)</u>
For the nine months period ended			
Other operating income, net	145,680	(72,881)	72,799
Impairment charges for credit losses, net	(534,018)	72,881	(461,137)
	<u>(388,338)</u>	<u>-</u>	<u>(388,338)</u>

- b. The change in the accounting policy for zakat and income tax (as explained in note 4(a)) has the following impact on the line items of interim consolidated statements of financial position and changes in equity as of and for the period ended September 30, 2016:

September 30, 2016 (unaudited)	As originally reported	Restatement	Amounts reported after restatement
Other liabilities	3,381,465	463,980	3,845,445
Retained earnings	4,348,792	(463,980)	3,884,812
	<u>7,730,257</u>	<u>-</u>	<u>7,730,257</u>

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

17. Board of Directors' approval

The interim condensed consolidated financial statements were approved by the Board on Safar 4, 1439 (corresponding to October 24, 2017).