



Arab National Bank

(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements

For the period ended 30 June 2017



KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Introduction:

We have reviewed the accompanying interim consolidated statement of financial position of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2017, and the related interim consolidated statements of income and comprehensive income for the three and six month periods then ended and the related interim consolidated statements of changes in equity and cash flows for the six 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 June 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

P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia



Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Abdullah Hamad Al Fozan
Certified Public Accountant
Registration No. 348

26 Shawwal 1438H
(20 July 2017)

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

As at	Notes	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited) (Restated)
ASSETS				
Cash and balances with SAMA		18,791,622	19,503,973	11,656,065
Due from banks and other financial institutions		6,858,683	4,030,850	8,016,898
Positive fair value of derivatives	8	632,330	459,770	321,910
Investments, net	5	24,879,737	25,548,399	23,036,993
Loans and advances, net	6	114,883,981	115,511,521	117,877,371
Investments in associates		632,912	616,395	604,172
Other real estate		220,697	136,634	136,634
Investment property, net		1,638,963	1,651,363	1,663,782
Property and equipment, net		1,754,954	1,839,222	1,929,364
Other assets		738,362	710,595	1,335,275
Total assets		171,032,241	170,008,722	166,578,464
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		9,143,448	3,858,871	7,500,402
Negative fair value of derivatives	8	616,805	439,789	409,531
Customers' deposits	7	130,746,573	135,907,457	129,159,477
Other liabilities		4,226,303	3,859,862	4,788,965
Sukuk		2,015,701	2,018,190	2,015,618
Total liabilities		146,748,830	146,084,169	143,873,993
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		207,404	166,514	(51,398)
Retained earnings		3,937,453	3,172,847	3,308,352
Proposed dividends		-	450,000	-
Total equity attributed to equity holders of the Bank		23,590,857	23,235,361	21,988,954
Non-controlling interests		692,554	689,192	715,517
Total equity		24,283,411	23,924,553	22,704,471
Total liabilities and equity		171,032,241	170,008,722	166,578,464

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

Latifa Al-Sabhan : Chief Financial Officer

Robert Eid : Managing Director

Hesham Al-Jabr : Authorised Board Member

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

	<u>For the three month period ended</u>		<u>For the six month period ended</u>	
<u>Note</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Special commission income	1,530,912	1,426,146	3,035,705	2,707,443
Special commission expense	315,546	339,927	751,416	659,543
Net special commission income	1,215,366	1,086,219	2,284,289	2,047,900
Fees and commission income, net	253,765	265,465	525,618	567,340
Exchange income, net	103,710	115,813	208,380	245,368
Unrealized gain/(loss) on FVIS financial investments, net	-	(5,609)	31	(5,813)
Trading income, net	6,069	7,781	16,267	7,953
Dividend income	25,010	22,260	29,069	29,559
Gains on non-trading investments, net	7,943	31	8,482	23,283
Other operating income, net	24,100	25,644	44,407	49,305
Total operating income	1,635,963	1,517,604	3,116,543	2,964,895
Salaries and employee related expenses	300,966	327,249	607,900	661,486
Rent and premises related expenses	41,037	39,908	92,195	81,867
Depreciation and amortization	55,721	60,600	112,451	118,265
Other general and administrative expenses	129,943	130,469	256,492	276,017
Impairment charges for credit and other losses, net	266,675	140,525	443,577	265,306
Impairment charges for investment, net	-	8,853	-	8,853
Total operating expenses	794,342	707,604	1,512,615	1,411,794
Net operating income	841,621	810,000	1,603,928	1,553,101
Share in earnings of associates, net	9,469	11,482	16,518	20,055
Net income for the period	851,090	821,482	1,620,446	1,573,156
Attributable to:				
Equity holders of the Bank	849,039	817,984	1,617,084	1,567,175
Non-controlling interests	2,051	3,498	3,362	5,981
Net income for the period	851,090	821,482	1,620,446	1,573,156
Basic and diluted earnings (in SAR per share)	0.85	0.82	1.62	1.57

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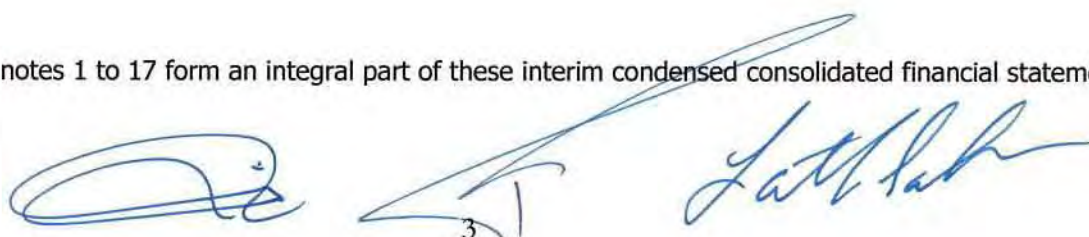
The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.




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

	<u>For the three month period ended</u>		<u>For the six month period ended</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Net income for the period	851,090	821,482	1,620,446	1,573,156
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	129,666	(20,020)	49,176	(139,019)
- Net amounts transferred to interim consolidated statement of income	(7,747)	8,822	(8,286)	(14,430)
Total other comprehensive income /(loss) for the period	121,919	(11,198)	40,890	(153,449)
Total comprehensive income for the period	973,009	810,284	1,661,336	1,419,707
Attributable to:				
Equity holders of the Bank	970,958	806,786	1,657,974	1,413,726
Non-controlling interest	2,051	3,498	3,362	5,981
Total comprehensive income for the period	973,009	810,284	1,661,336	1,419,707

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 six month period ended June 30, 2017 and 2016
(Unaudited)
(SAR'000)

2017

Attributable to equity holders of the Bank								
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	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			49,176	-	-	49,176	-	49,176
Net amounts transferred to interim consolidated statement of income			(8,286)	-	-	(8,286)	-	(8,286)
Net income for the period			-	1,617,084	-	1,617,084	3,362	1,620,446
Total comprehensive income for the period			40,890	1,617,084	-	1,657,974	3,362	1,661,336
2016 final dividends			-	-	(450,000)	(450,000)	-	(450,000)
2017 interim dividends	13		-	(550,000)	-	(550,000)	-	(550,000)
Zakat for the current period	4a		-	(181,737)	-	(181,737)	-	(181,737)
Income tax for the current period	4a		-	(120,741)	-	(120,741)	-	(120,741)
Balance at the end of the period			10,000,000	9,446,000	207,404	3,937,453	-	23,590,857
							692,554	24,283,411

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			(139,019)	-	-	(139,019)	-	(139,019)
Net amounts transferred to interim consolidated statement of income			(14,430)	-	-	(14,430)	-	(14,430)
Net income for the period			-	1,567,175	-	1,567,175	5,981	1,573,156
Total comprehensive income for the period			(153,449)	1,567,175	-	1,413,726	5,981	1,419,707
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	16	-	-	(190,599)	-	(190,599)	-	(190,599)
Income tax for the current period	16	-	-	(128,170)	-	(128,170)	-	(128,170)
Balance at the end of the period			10,000,000	8,732,000	(51,398)	3,308,352	-	21,988,954
							715,517	22,704,471

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 six month period ended
(Unaudited)
(SAR'000)

	Note	June 30, 2017	June 30, 2016
<u>OPERATING ACTIVITIES</u>			
Net income for the period		1,620,446	1,573,156
Adjustments to reconcile net income to net cash from (used in) operating activities for the period:			
Accretion of premiums/(discounts) on non-trading investments, net		3,047	(13,258)
Special commission expense on sukuk		36,459	28,330
Gains on non-trading investments, net		(8,482)	(23,283)
Unrealized (gains)/losses on FVIS financial investments, net		(31)	5,813
Dividend income		(29,069)	(29,559)
Depreciation of investment property		12,400	12,407
Depreciation and amortization of property and equipment		112,451	118,265
Losses on disposal of property and equipment, net		3,439	206
Impairment charges for investments, net		-	8,853
Share in earnings of associates, net		(16,518)	(20,055)
Impairment charges for credit and other losses, net		443,577	265,306
		2,177,719	1,926,181
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		204,405	99,444
Investments held at FVIS		757	1,313,836
Positive fair value of derivatives		(172,560)	(31,751)
Loans and advances, net		220,902	(2,508,480)
Other assets		(27,766)	(470,471)
Other real estate		-	23,259
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		5,284,577	1,827,289
Negative fair value of derivatives		177,016	70,582
Customers' deposits		(5,160,884)	(6,601,717)
Other liabilities		(599,122)	(43,852)
Net cash from (used in) operating activities		2,105,044	(4,395,680)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		2,929,490	20,486,651
Purchase of non-trading investments		(2,225,950)	(11,598,462)
Investment in associates		-	(52,500)
Purchase of investment property		-	(323)
Purchase of property and equipment		(33,102)	(102,535)
Proceeds from sale of property and equipment		1,480	120
Dividends received		29,069	29,559
Net cash from investing activities		700,987	8,762,510
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(447,196)	(545,511)
Special commission paid on sukuk		(38,948)	(23,982)
Non-controlling interest		-	(28,320)
Net cash used in financing activities		(486,144)	(597,813)
Net increase in cash and cash equivalents		2,319,887	3,769,017
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	18,667,210	12,449,535
Special commission received during the period		2,942,954	2,684,491
Special commission paid during the period		(718,642)	(655,530)
<u>Supplemental non-cash information</u>			
Net changes in fair value of available for sale investments		49,176	(139,019)

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 six month period ended June 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 148 branches (2016: 152 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

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

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

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

Arab National Investment Company (ANB Invest)

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

Arabian Heavy Equipment Leasing Company (AHEL)

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

Arab Insurance Agency

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

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the six month period ended June 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 six-month period ended June 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 six month period ended June 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 six month period ended June 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:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Trading securities	-	-	198
Designated as fair value through income statement (FVIS)	-	726	710
Available for sale	8,864,284	9,457,044	9,819,858
Other investments held at amortized cost	16,015,453	16,090,629	13,216,227
Total	24,879,737	25,548,399	23,036,993

6. Loans and advances, net

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

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Commercial loans and overdrafts	91,328,492	91,307,234	92,031,959
Consumer loans	24,678,162	25,410,888	27,083,779
Credit cards	494,328	504,504	458,255
Performing loans and advances	116,500,982	117,222,626	119,573,993
Non-performing loans and advances, net	1,279,528	1,006,686	904,809
Gross loans and advances	117,780,510	118,229,312	120,478,802
Impairment charges for credit losses, net	(2,896,529)	(2,717,791)	(2,601,431)
Loans and advances, net	114,883,981	115,511,521	117,877,371

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7. Customers' deposits

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Demand	66,100,267	65,092,740	65,320,903
Time	61,358,685	65,003,835	60,407,117
Saving	91,908	93,124	81,614
Others	3,195,713	5,717,758	3,349,843
Total	130,746,573	135,907,457	129,159,477

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.

	June 30, 2017 (Unaudited)			December 31, 2016 (Audited)			June 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	288,996	265,990	19,038,188	126,909	119,737	8,593,057	62,957	54,381	7,509,440
Commission rate futures and options	240,815	236,835	9,546,335	138,665	133,890	10,174,085	18,792	13,621	3,849,904
Forward foreign exchange and commodity contracts	73,031	40,457	8,359,024	131,360	97,055	10,346,134	114,023	85,185	15,996,859
Currency and commodity options	16,924	15,667	4,364,215	36,558	35,030	7,704,165	86,388	74,722	13,381,557
Held as fair value hedges:									
Commission rate swaps	12,564	57,856	9,547,986	26,278	54,077	8,689,459	39,750	181,622	12,935,074
Total	632,330	616,805	50,855,748	459,770	439,789	45,506,900	321,910	409,531	53,672,834

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 93,600 thousands (December 31, 2016: SAR 12,290 thousands, and June 30, 2016: SAR 130,665 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:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Letters of credit	4,638,161	3,976,896	4,881,555
Letters of guarantee	24,031,152	25,114,398	25,670,743
Acceptances	2,182,023	1,619,502	1,361,755
Irrevocable commitments to extend credit	2,851,263	3,010,172	2,251,543
Other	98,592	101,726	107,093
Total	33,801,191	33,822,694	34,272,689

The unutilized portion of non-firm commitments as at June 30, 2017 which can be revoked unilaterally at any time by the Bank, amounts SAR 15,935 million (December 31, 2016: SAR 18,591 million and June 30, 2016: SAR 18,250 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:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	11,808,527	12,316,473	4,432,637
Due from banks and other financial institutions maturing within 90 days from the acquisition date	6,858,683	4,030,850	8,016,898
Total	18,667,210	16,347,323	12,449,535

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 June 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 June 30, 2017 and 2016, its total operating income, expenses and net income for the six months then ended, by operating segments, are as follows:

June 30, 2017 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	36,664,674	82,820,153	47,735,630	1,719,379	2,092,405	171,032,241
Investments in associates	-	-	-	-	632,912	632,912
Total liabilities	65,583,881	68,275,760	11,018,844	128,481	1,741,864	146,748,830
Operating income / (loss) from external customers	1,041,221	2,000,426	(62,236)	82,849	54,283	3,116,543
Intersegment operating income/(expense)	160,445	(787,541)	573,402	-	53,694	-
Total operating income	1,201,666	1,212,885	511,166	82,849	107,977	3,116,543
Of which:						
Net special commission income	1,013,455	953,147	251,645	7,983	58,059	2,284,289
Fees and commission income, net	157,768	270,626	6,745	33,897	56,582	525,618
Impairment charges on loans and advances, net	141,522	302,055	-	-	-	443,577
Impairment charges for investments, net	-	-	-	-	-	-
Depreciation and amortization	59,716	2,581	1,781	1,144	47,229	112,451
Total operating expenses	840,360	554,296	47,982	48,910	21,067	1,512,615
Share in earnings of associates, net	-	-	-	-	16,518	16,518
Net income attributed to non- controlling interest	-	-	-	-	3,362	3,362
Net income attributed to equity holders of the Bank	361,306	658,589	463,184	33,939	100,066	1,617,084

June 30, 2016 (Restated) (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	41,455,899	82,132,933	39,277,513	1,753,922	1,958,197	166,578,464
Investments in associates	-	-	-	-	604,172	604,172
Total liabilities	68,245,343	64,065,892	9,626,542	164,586	1,771,630	143,873,993
Operating income / (loss) from external customers	1,105,481	1,810,468	(104,555)	70,265	83,236	2,964,895
Intersegment operating income/(expense)	75,197	(779,023)	621,861	3	81,962	-
Total operating income	1,180,678	1,031,445	517,306	70,268	165,198	2,964,895
Of which:						
Net special commission income	962,481	766,835	244,899	(11,422)	85,107	2,047,900
Fees and commission income, net	188,999	288,810	5,424	39,303	44,804	567,340
Impairment charge on loans and advances, net	127,699	137,607	-	-	-	265,306
Impairment charges for investments, net	-	-	8,853	-	-	8,853
Depreciation and amortization	66,573	1,669	1,782	1,990	46,251	118,265
Total operating expenses	851,312	405,981	63,683	46,635	44,183	1,411,794
Share in earnings of associates, net	-	-	-	-	20,055	20,055
Net income attributed to non- controlling interest	-	-	-	-	5,981	5,981
Net income attributed to equity holders of the Bank	329,366	625,464	453,623	23,633	135,089	1,567,175

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12. Share capital and earnings per share

As at June 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 June 30, 2016: 1,000 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended June 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 30 June 2017 (30 June 2016: SAR 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.55 per share, net (30 June 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 measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets					
June 30, 2017 (Unaudited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Available for sale investments	8,864,284	7,700,958	1,147,397	15,929	8,864,284
Positive fair value of derivatives	632,330	-	632,330	-	632,330
Financial assets not measured at fair value					
Due from banks and other financial institutions	6,858,683	-	-	-	6,858,683
Other investments at amortised cost	16,015,453	504,186	15,380,070	-	15,884,256
Loans and advances	114,883,981	-	116,200,557	-	116,200,557

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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			
		Level 1	Level 2	Level 3	Total
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

June 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	616,805	-	616,805	-	616,805
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	9,143,448	-	-	-	9,143,448
Customer deposits	130,746,573	-	-	-	130,746,573
Sukuk	2,015,701	-	1,929,436	-	1,929,436

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

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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 June 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
Financial assets designated at FVIS	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
Forward exchange contract and commission rate swaps	The fair values are based on market quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	None	Not applicable
Corporate debt securities	The fair values are based on either market prices wherever available or relevant and observable market in-puts like CDS spread, zero rate curves etc.	10bps are added to the CDS spread to account for any potential model discrepancy or any stressed market conditions	Higher the spread, lower the valuation will be vice-versa

ii. Transfer between levels of the fair value hierarchy

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

iii. Level 3 fair values

Reconciliation of Level 3 fair values

Financial investments designated as available for sale:

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

	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Balance at the beginning of the period	24,215	85,794
Total gains (losses) in other comprehensive income	4,693	(7,190)
Settlements	(12,979)	(51,737)
Balance at the end of the period	15,929	26,867

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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:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	June 30, 2016 (Unaudited) (Restated)
Credit Risk RWA	146,015,989	142,002,565	148,416,759
Operational Risk RWA	13,176,799	12,892,057	12,633,999
Market Risk RWA	1,190,698	933,982	2,039,174
Total Pillar-I RWA	160,383,486	155,828,604	163,089,932
Tier I Capital	23,590,857	22,785,361	21,988,954
Tier II Capital	2,971,451	2,881,451	2,881,451
Total Tier I & II Capital	26,562,308	25,666,812	24,870,405

Capital Adequacy Ratio %

Tier I ratio	14.71%	14.62%	13.48%
Tier I + Tier II ratio	16.56%	16.47%	15.25%

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.

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.

June 30, 2016 (unaudited)	As originally reported	Reclassification	Amounts reported after reclassification
For the three months period ended			
Other operating income, net	54,228	(28,584)	25,644
Impairment charges for credit losses, net	(169,109)	28,584	(140,525)
	<u>(114,881)</u>	<u>-</u>	<u>(114,881)</u>
For the six months period ended			
Other operating income, net	105,790	(56,485)	49,305
Impairment charges for credit losses, net	(321,791)	56,485	(265,306)
	<u>(216,001)</u>	<u>-</u>	<u>(216,001)</u>

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16. Comparative figures (continued)

- 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 June 30, 2016:

June 30, 2016 (unaudited)	As originally reported	Restatement	Amounts reported after restatement
Other liabilities	4,470,196	318,769	4,788,965
Retained earnings	3,627,121	(318,769)	3,308,352
	<u>8,097,317</u>	<u>-</u>	<u>8,097,317</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 Shawwal 25, 1438 (corresponding to July 19, 2017).