

Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group") as at June 30, 2013, the related interim consolidated statements of income and comprehensive income for the three month and six month periods then ended, the related interim consolidated statements of changes in equity and cash flows for the six month period then ended and the notes from (1) to (14) for the six month period then ended. We have not reviewed note (15), nor the information related to "Basel II Pillar 3 Disclosures" cross referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions, certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (13) of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (13) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

Ernst & Young

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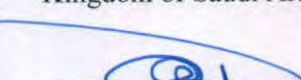


Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277



8 Ramadan 1434H
(16 July 2013)

**Deloitte and Touche
Bakr Abulkhair & Co**
P O Box 213
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Kingdom of Saudi Arabia



Bakr A. Abulkhair
Certified Public Accountant
Registration No. 101



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

As at		June 30, 2013 (Unaudited) SAR'000	December 31, 2012 (Audited) SAR'000	June 30, 2012 (Unaudited) SAR'000
	Note			
ASSETS				
Cash and balances with SAMA		15,885,957	20,334,429	9,815,282
Due from banks and other financial institutions		2,006,540	2,240,924	2,214,480
Investments, net	4	28,721,429	24,323,047	23,975,560
Loans and advances, net	5	85,536,115	86,328,608	80,739,470
Investment in associates		447,150	430,046	413,321
Other real estate		136,634	319,006	319,209
Property and equipment, net		1,584,284	1,506,311	1,510,884
Other assets		1,805,352	1,156,905	1,403,819
Total assets		136,123,461	136,639,276	120,392,025
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		10,670,192	6,549,924	4,312,644
Customers' deposits	6	103,017,960	107,560,443	94,815,820
Other liabilities		2,412,077	2,931,822	2,286,822
Debt securities in issue		1,687,500	1,687,500	1,687,500
Total liabilities		117,787,729	118,729,689	103,102,786
Equity attributable to equity holders of the Bank				
Share capital	11	8,500,000	8,500,000	8,500,000
Statutory reserve		6,630,000	6,630,000	6,030,000
Other reserves		121,927	244,618	213,573
Retained earnings		2,976,326	1,579,657	2,439,935
Proposed dividends		-	850,000	-
Total equity attributable to equity holders of the Bank		18,228,253	17,804,275	17,183,508
Non-controlling interest		107,479	105,312	105,731
Total equity		18,335,732	17,909,587	17,289,239
Total liabilities and equity		136,123,461	136,639,276	120,392,025

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

Abdullah Al-Khalifa : Chief Financial Officer

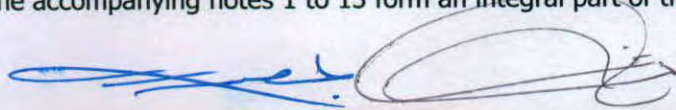
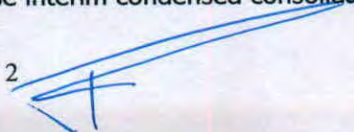
Robert Eid : Managing Director

Hesham A. Aljabr : Authorized Board Member

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

		<u>For the three months ended</u>		<u>For the six months ended</u>	
		June 30,	June 30,	June 30,	June 30,
		2013	2012	2013	2012
	Note	SAR'000	SAR'000	SAR'000	SAR'000
Special commission income		972,241	931,229	1,936,818	1,817,745
Special commission expense		135,343	88,438	324,712	202,218
Net special commission income		836,898	842,791	1,612,106	1,615,527
Fees and commission income, net		275,811	247,431	563,601	493,018
Exchange income, net		86,904	53,177	167,963	105,174
Income (loss) from FVIS financial instruments, net	2	496	496	4,971	(1,484)
Trading income, net		589	7,539	33,629	49,963
Gains and impairment of non-trading investments, net		1,033	6,229	23,931	55,141
Dividend income		9,107	7,654	35,378	20,625
Other operating income		53,045	89,741	90,098	112,780
Total operating income		1,263,389	1,255,058	2,531,677	2,450,744
Salaries and employee related expenses		301,001	267,649	598,250	527,113
Rent and premises related expenses		35,529	31,653	68,670	62,695
Depreciation and amortization		46,346	48,007	94,146	98,394
Other general and administrative expenses		104,027	113,049	217,076	226,422
Impairment charges for credit losses, net		65,537	83,842	171,803	173,763
Total operating expenses		552,440	544,200	1,149,945	1,088,387
Net operating income		710,949	710,858	1,381,732	1,362,357
Share in earnings of an associate		8,666	7,078	17,104	11,404
Net income for the period		719,615	717,936	1,398,836	1,373,761
(Income) loss attributed to non-controlling interest		(1,641)	47	(2,167)	(266)
Net income for the period attributed to equity holders of the Bank		717,974	717,983	1,396,669	1,373,495
Basic and fully diluted earnings (in SAR per share)	11	0.84	0.84	1.64	1.62

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

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	<u>SAR' 000</u>	<u>SAR' 000</u>	<u>SAR' 000</u>	<u>SAR' 000</u>
Net income for the period	719,615	717,936	1,398,836	1,373,761
Other comprehensive income:				
Available for sale investments:				
- Net changes in fair value	(96,921)	(126,800)	(56,841)	110,674
- Transfers to interim consolidated statement of income	(919)	(6,229)	(23,817)	(52,591)
Cash flows hedges:				
- Net change in fair value	(41,271)	(13,421)	(36,660)	(2,796)
- Transfers to interim consolidated statement of income	(2,985)	(9,652)	(5,373)	(19,334)
	(142,096)	(156,102)	(122,691)	35,953
Total comprehensive income for the period	577,519	561,834	1,276,145	1,409,714
Attributable to:				
Equity holders of the bank	575,878	561,881	1,273,978	1,409,448
Non-controlling interest	1,641	(47)	2,167	266
Total comprehensive income for the period	577,519	561,834	1,276,145	1,409,714

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

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

	Attributable to equity holders of the Bank							Non-controlling interest SAR'000	Total equity SAR'000
	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR'000	Total SAR'000			
2013									
Balance at beginning of the period	8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587	
Net changes in fair value of cash flow hedges			(36,660)	-	-	(36,660)	-	(36,660)	
Net changes in fair value of available for sale investments			(56,841)	-	-	(56,841)	-	(56,841)	
Transfers to interim consolidated statement of income			(29,190)	-	-	(29,190)	-	(29,190)	
Net comprehensive income for the period			(122,691)	-	-	(122,691)	-	(122,691)	
Net income for the period			-	1,396,669	-	1,396,669	2,167	1,398,836	
Total comprehensive income for the period			(122,691)	1,396,669	-	1,273,978	2,167	1,276,145	
2012 dividend			-	-	(850,000)	(850,000)	-	(850,000)	
Balance at end of the period	8,500,000	6,630,000	121,927	2,976,326	-	18,228,253	107,479	18,335,732	

	Attributable to equity holders of the Bank							Non-controlling interest SAR'000	Total equity SAR'000
	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR'000	Total SAR'000			
2012									
Balance at beginning of the period	8,500,000	6,030,000	177,620	1,066,440	850,000	16,624,060	105,465	16,729,525	
Net changes in fair value of cash flow hedges			(2,796)	-	-	(2,796)	-	(2,796)	
Net changes in fair value of available for sale investments			110,674	-	-	110,674	-	110,674	
Transfers to interim consolidated statement of income			(71,925)	-	-	(71,925)	-	(71,925)	
Net comprehensive income for the period			35,953	-	-	35,953	-	35,953	
Net income for the period			-	1,373,495	-	1,373,495	266	1,373,761	
Total comprehensive income for the period			35,953	1,373,495	-	1,409,448	266	1,409,714	
2011 dividend			-	-	(850,000)	(850,000)	-	(850,000)	
Balance at end of the period	8,500,000	6,030,000	213,573	2,439,935	-	17,183,508	105,731	17,289,239	

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

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

	<u>Note</u>	<u>June 30, 2013</u> <u>SAR'000</u>	<u>June 30, 2012</u> <u>SAR'000</u>
<u>OPERATING ACTIVITIES</u>			
Net income for the period		1,398,836	1,373,761
Adjustments to reconcile net income for the period to net cash from (used in) operating activities:			
Accretion of discounts on non-trading investments, net		(20,047)	(19,445)
Gains and impairment of non-trading investments, net		(23,931)	(55,141)
Depreciation and amortization		94,146	98,394
Loss (gain) on disposal/sale of property and equipment, net		951	(44)
Share in earnings of an associate		(17,104)	(11,404)
Impairment charges for credit losses, net		171,803	173,763
		1,604,654	1,559,884
Net decrease (increase) in operating assets:			
Statutory deposit with SAMA		(177,133)	(343,242)
Due from banks and other financial institutions maturing after ninety days of the acquisition date		-	37,500
Investments held at FVIS		51,687	4,203
Loans and advances		604,074	(8,053,210)
Other real estate		182,372	(151,200)
Other assets		(389,055)	239,621
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,120,268	(4,511,818)
Customers' deposits		(4,542,483)	6,957,005
Other liabilities		(968,656)	(168,883)
Net cash from (used in) operating activities		485,728	(4,430,140)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sales of and matured non-trading investments		24,402,787	45,824,568
Purchase of non-trading investments		(28,733,646)	(43,574,436)
Investment in associates		-	(52,500)
Purchase of property and equipment		(173,070)	(126,736)
Proceeds from sale of property and equipment		-	244
Net cash (used in) from investing activities		(4,503,929)	2,071,140
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(841,788)	(842,073)
Net cash used in financing activities		(841,788)	(842,073)
Decrease in cash and cash equivalents		(4,859,989)	(3,201,073)
Cash and cash equivalents at the beginning of the period		17,304,744	10,241,180
Cash and cash equivalents at the end of the period	9	12,444,755	7,040,107
Special commission received during the period		1,902,800	1,863,958
Special commission paid during the period		(293,701)	(189,614)
<u>Supplemental non-cash information</u>			
Net changes in fair value		(93,501)	107,878

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

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

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (January 19, 1980) through 147 branches (2012: 143 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank

P.O. Box 56921

Riyadh 11564

Kingdom of Saudi Arabia

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

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

Arab National Bank Investment Company (ANB Invest)

In accordance with the Capital Market Authority directives, the Bank has established a wholly owned subsidiary (directly and indirectly) "ANB Invest", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on Shawal26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority. The subsidiary commenced its operations effective on Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008.

Arabian Heavy Equipment Leasing Company (AHEL)

A 62.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (corresponding to May 10, 2009). The company is engaged in leasing of heavy equipments and operating in compliance with Shariah principals. The Bank started consolidating the subsidiary financial statements effective May 10, 2009, the date the subsidiary started its operation.

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and IAS 34 – Interim Financial Reporting as issued by the international standards accounting board. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law, provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by laws.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012.

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

ARAB NATIONAL BANK – Saudi Joint Stock Company
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three months ended June 30, 2013 and 2012
(SAR'000)

2. Basis of preparation (continued)

Basis of consolidation

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

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

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

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

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

3. Accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used for the year ended December 31, 2012 except for the adoption of the following standards which had no significant financial impact on the interim condensed financial statements of the Group.

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

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

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

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

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

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

4. Investments, net

Investments are classified as follows:

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Held at fair value through income statement (FVIS)	26,491	78,178	80,119
Available for sale	12,324,555	9,284,603	8,545,745
Held at amortized cost, net	16,370,383	14,960,266	15,349,696
Total	28,721,429	24,323,047	23,975,560

5. Loans and advances, net

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

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Commercial loans and overdrafts	63,604,646	65,479,763	59,908,715
Consumer loans	22,928,496	21,839,949	21,562,302
Credit cards	382,001	392,840	435,148
Performing loans and advances	86,915,143	87,712,552	81,906,165
Non-performing loans and advances, net	1,381,533	1,314,784	1,533,343
Gross loans and advances	88,296,676	89,027,336	83,439,508
Impairment charges for credit losses, net	(2,760,561)	(2,698,728)	(2,700,038)
Loans and advances, net	85,536,115	86,328,608	80,739,470

6. Customers' deposits

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Demand	56,322,520	52,349,494	49,026,408
Time	43,161,368	51,248,571	43,188,357
Saving	106,016	103,598	104,906
Others	3,428,056	3,858,780	2,496,149
Total	103,017,960	107,560,443	94,815,820

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

7. Derivatives

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

	June 30, 2013 (Unaudited)			December 31, 2012 (Audited)			June 30, 2012 (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
Derivatives held for trading:									
Commission rate swaps	138,206	134,947	6,675,177	70,566	63,595	6,941,399	76,537	71,135	5,176,882
Commission rate futures and options	-	-	5,055,476	-	-	-	2,814	1,597	2,726,987
Forward foreign exchange contracts	61,683	32,064	7,020,604	82,169	56,295	15,493,676	79,907	43,976	10,746,494
Currency options	263,114	261,865	13,646,364	6,632	492	5,896,813	12,972	6,810	5,802,577
Derivatives held as fair value hedges:									
Commission rate swaps	3,779	107,471	3,524,376	5,990	136,934	3,514,880	-	181,545	4,548,111
Derivatives held as cash flow hedges:									
Commission rate swaps	-	41,531	2,193,750	-	-	-	6,125	1,258	2,400,000
Total	466,782	577,878	38,115,747	165,357	257,316	31,846,768	178,355	306,321	31,401,051

8. Credit related commitments and contingencies

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

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Letters of credit	6,519,040	8,067,242	7,588,750
Letters of guarantee	26,085,855	25,035,170	24,030,083
Acceptances	3,412,607	2,471,696	2,008,530
Irrevocable commitments to extend credit	1,421,789	1,327,141	1,777,219
Other	156,925	166,375	275,084
Total	37,596,216	37,067,624	35,679,666

9. Cash and cash equivalents

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

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	10,438,215	15,063,820	4,825,627
Due from banks and other financial institutions maturing within ninety days of the acquisition date	2,006,540	2,240,924	2,214,480
Total	12,444,755	17,304,744	7,040,107

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

10. Operating segments

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

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

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

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

Investment and brokerage services

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

Other

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

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

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10. Operating segments (continued)

June 30, 2013 (Unaudited)						
	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	32,156,298	57,432,024	44,020,993	54,917	2,459,229	136,123,461
Total liabilities	55,605,622	49,229,270	12,801,223	35,481	116,133	117,787,729
Total operating income	1,058,437	878,145	434,482	65,460	95,153	2,531,677
Total operating expenses	757,515	289,579	42,939	38,985	20,927	1,149,945
Share in earnings of an associate	-	-	-	-	17,104	17,104
Income attributed to non-controlling interest	-	-	-	-	2,167	2,167
Impairment charges for credit losses, net	97,850	73,953	-	-	-	171,803
Depreciation and amortization	69,518	1,571	1,846	3,329	17,882	94,146
Net income for the period	300,922	588,566	391,543	26,475	89,163	1,396,669

June 30, 2012 (Unaudited)						
	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	30,098,276	54,850,932	32,339,390	163,213	2,940,214	120,392,025
Total liabilities	48,574,521	48,244,237	5,945,361	33,721	304,946	103,102,786
Total operating income	1,103,495	774,155	439,692	86,240	47,162	2,450,744
Total operating expenses	704,225	274,275	38,239	43,028	28,620	1,088,387
Share in earnings of an associate	-	-	-	-	11,404	11,404
Income attributed to non-controlling interest	-	-	-	-	266	266
Impairment charges for credit losses, net	78,671	95,092	-	-	-	173,763
Depreciation and amortization	79,536	1,662	2,101	3,994	11,101	98,394
Net income for the period	399,270	499,880	401,453	43,212	29,680	1,373,495

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11. Share capital and earnings per share

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

Basic and diluted earnings per share for the periods ended June 30, 2013 and 2012 are calculated by dividing the net income for the periods by 850 million shares.

12. Fair values of financial assets and liabilities

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

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

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

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

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Financial assets designated at FVIF	-	26,491	-	26,491
Financial investments available for sale	10,268,508	1,989,129	66,918	12,324,555
Derivative financial instruments	61,683	405,099	-	466,782
Total	<u>10,330,191</u>	<u>2,420,719</u>	<u>66,918</u>	<u>12,817,828</u>
Financial Liabilities				
Derivative financial instruments	32,064	545,814	-	577,878
Total	<u>32,064</u>	<u>545,814</u>	<u>-</u>	<u>577,878</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of on-interim consolidated statement of financial position financial instruments, except for other investments held at amortized cost, held-to-maturity investments which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, debts securities in issue, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. The fair value of these investments was estimated to be SAR 16.5 billion at 30 June 2013.

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

The fair values of derivatives and other off-interim consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the interim consolidated statement of income, which was estimated using valuation technique at 30 June 2013, is SAR 70 million (30 June 2012: SAR 134 million).

13. Capital Adequacy

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

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

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

	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)
Credit Risk RWA	115,147,400	105,669,307
Operational Risk RWA	9,265,664	8,504,613
Market Risk RWA	290,324	2,139,466
Total Pillar-I RWA	124,703,388	116,313,386
 Tier I Capital	 18,228,253	 15,677,136
Tier II Capital	1,382,385	2,956,021
Total Tier I & II Capital	19,610,638	18,633,157
 Capital Adequacy Ratio %		
Tier I ratio	14.62%	13.48%
Tier I + Tier II ratio	15.73%	16.02%

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

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

14. Comparative figures

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

15. BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative disclosures are required, and these disclosures will be made available on the Bank's website www.anb.com.sa as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review or audit by the external auditors.