



Arab National Bank

(A Saudi Joint Stock Company)

Consolidated Financial Statements For the year ended 31 December 2016



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KPMG Al Fozan & Partners
Certified Public Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory notes from 1 to 42.

In our opinion, the accompanying consolidated financial statements taken as a whole:

- present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Authority ("SAMA") and with International Financial Reporting Standards ("IFRS"); and.
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p>Loan impairment</p> <p>At December 31, 2016, the gross loans and advances were Saudi Riyals 118,229 million against which impairment provision of Saudi Riyals 2,718 million was maintained. This includes impairment against specific loans and collective impairment recorded on a portfolio basis through the use of a model.</p> <p>We considered this as a key audit matter as the management makes complex and subjective judgements and makes assumptions to determine the impairment and the timing of recognition of such impairment.</p> <p>In particular the determination of impairment against loans and advances includes:</p> <ul style="list-style-type: none"> • The identification of impairment events and methods and judgments used to calculate the impairment against specific corporate loans and advances; • The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations; • An assessment of the Group's exposure to certain industries affected by economic conditions. <p><i>Refer to the significant accounting policies note 3(l) to the consolidated financial statements, note 2(d) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances, note 7 which contains the disclosure of impairment against loans and advances and note 31 which explains the impairment assessment methodology used by the Group.</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of:</p> <ul style="list-style-type: none"> • Entity level controls over the modelling process including model review, monitoring and approval of assumption by management; • Controls over the identification of impaired loans and advances, model output to the general ledger, and the calculation of the impairment allowance. <p>For specific impairment, we performed the following procedures</p> <ul style="list-style-type: none"> • We tested a sample of loans and advances (including loans those were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner; • We considered the assumptions underlying the impairment identification including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc; • We also selected a sample of loans for industries adversely affected by the current economic conditions to evaluate management's assessment for impairment of such loans. <p>For collective impairment, among other procedures, we tested:</p> <ul style="list-style-type: none"> • the completeness and accuracy of the underlying loans and advances information used in the impairment models; • the key assumptions used by management for impaired loans; and • the calculations within the models on a sample basis.



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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p><i>Valuation of investments held as available for sale which are not traded in an active market</i></p> <p>Available for sale investments comprise a portfolio of debt, mutual funds and equity investments. These instruments are measured at fair value with the corresponding fair value changes recognised in other comprehensive income. The fair value of certain financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by the management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use significant observable valuation inputs (i.e. level 2 investments).</p> <p>In the Group's accounting policies, the management has described the key sources of estimation involved in determining the valuation of level 2 financial instruments and in particular when the fair value is established using a valuation techniques due to the instrument's complexity.</p> <p>The valuation of the Group's available for sale investments in level 2 category is considered a key audit matter given the degree of complexity involved in valuing these financial instruments and significance of the judgment and estimates made by the management.</p> <p><i>Refer to note 3(j) of the consolidated financial statements for the accounting policy, note 35 which explains the investment valuation methodology used by the Group and note 2(d) which explains critical judgments and estimates.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for performing valuation of investments classified as available for sale which are not traded in an active market.</p> <p>We performed an assessment of the methodology and the appropriateness of the valuation models and inputs used to value available for sale investments.</p> <p>We tested the valuation of a sample of available for sale investments not traded in an active market. As part of these audit procedures we assessed the key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with observable external data.</p>

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p><i>Impairment of non-trading investments</i></p> <p>As at December 31, 2016, the Group had non-trading investments of Saudi Riyals 9,457 million. These non-trading investments comprise equities, corporate bonds and sukuk which are subject to the risk of impairment in value due to either adverse market situation and / or liquidity constraints faced by the issuers.</p> <p>For assessing the impairment of equities the management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the equity instrument has been below its cost.</p> <p>For debt instruments such as corporate bonds/sukuk management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements.</p> <p><i>Refer to note 3(l) of the consolidated financial statements for the accounting policy relating to the impairment of non-trading investments, note 2(d) for the critical accounting estimates and judgements, and notes 31 and 33 for the disclosures of credit and market risks respectively.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of listed equities and/or any defaults on corporate bonds/sukuk.</p> <p>For equity investments, we considered the management criteria for determining significant or prolonged decline in the value of investments and on a sample basis;</p> <ul style="list-style-type: none"> • Evaluated the basis for determining the costs and fair value of investments; • Tested the cost and valuation of investments; and • Considered the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolonged criteria. <p>For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on available market information and assessed cash flows from the instrument, as provided by the management, to consider any defaults based on the terms and conditions of the issuance of these bonds/sukuk.</p>



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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p><i>Fee from banking services</i></p> <p>The Group charges administrative fee upfront to the customers on loans and advances. Due to a large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and thresholds in relation to the recognition of such fees which are recorded within fee and commission income, net.</p> <p>All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore all such fees should be considered for making an adjustment to the effective yield and such adjustment should be recognised within special commission income.</p> <p>We considered this as a key audit matter since the use of assumptions and judgements could result in material over/under statement of fees and commission income, net and special commission income.</p> <p><i>Refer to the significant accounting policies note 3(h) to the consolidated financial statements.</i></p>	<ul style="list-style-type: none"> • We assessed the design and implementation, and tested the operating effectiveness of the key controls over the consistent application of the assumptions and thresholds. • We considered the assumptions used and thresholds established by the Group to record the fee charged upfront on loan financing. • We obtained the management's assessment of the impact of the use of thresholds and assumptions and: <ul style="list-style-type: none"> ○ traced the historical and current year data used by the management in their assessment to the underlying accounting records on a sample basis; ○ assessed the management's estimation of the impact of the use of thresholds and assumptions on the recognition of fees and commission income and special commission income.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p>Valuation of derivatives</p> <p>The Group has entered into commission rate swaps (CRS), foreign exchange forward and commodity contracts, commission rate futures and options and certain structured derivative contracts which are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations including adjustments to counterparty's own credit risk.</p> <p>The majority of these derivatives are held for trading purposes; however, certain CRS are also categorized as fair value hedge in the consolidated financial statements. Valuation of derivatives could have a material impact on the consolidated financial statements.</p> <p>We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation, where complex modelling techniques are being used.</p> <p><i>Refer to note 3(e) of the consolidated financial statements for the accounting policy relating to valuation of derivative and note 12 which explains the derivative positions and explains the valuation methodology used by the Group.</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant automated controls covering the fair valuation process for derivatives.</p> <p>We selected a sample of derivatives and:</p> <ul style="list-style-type: none"> • Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Checked the accuracy and appropriateness of the key inputs to the valuation model; and • Involved our valuation specialists to perform an independent valuation of the derivatives and compared the result with management's valuation.



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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Other Information included in the Bank's 2016 Annual Report

Management is responsible for the other information in its annual report. Other information consists of the information included in the Bank's 2016 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Standards for Commercial Banks issued by the SAMA, IFRSs, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

25 Jumad Awal 1438 H
(22 February 2017)



Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016 and 2015
(Saudi Riyals in Thousands)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Cash and balances with SAMA	4	19,503,973	10,428,291
Due from banks and other financial institutions	5	4,030,850	5,575,099
Positive fair value derivatives	12	459,770	290,158
Investments, net	6	25,548,399	33,294,299
Loans and advances, net	7	115,511,521	115,655,825
Investments in associates	8	616,395	531,617
Other real estate		136,634	159,893
Investment property, net	9	1,651,363	1,675,866
Property and equipment, net	10	1,839,222	1,945,420
Other assets	11	710,595	864,805
Total assets		170,008,722	170,421,273
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	13	3,858,871	5,673,113
Negative fair value derivatives	12	439,789	338,949
Customers' deposits	14	135,907,457	135,761,194
Other liabilities	15	3,859,862	4,004,894
Debt securities and sukuk	16	2,018,190	2,011,270
Total liabilities		146,084,169	147,789,420
Equity attributable to equity holders of the Bank			
Share capital	17	10,000,000	10,000,000
Statutory reserve	18	9,446,000	8,732,000
Other reserves		166,514	102,051
Retained earnings		3,172,847	2,509,946
Proposed dividends	27	450,000	550,000
Total equity attributable to equity holders of the Bank		23,235,361	21,893,997
Non-controlling interests		689,192	737,856
Total equity		23,924,553	22,631,853
Total liabilities and equity		170,008,722	170,421,273

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Latifa Al-Sabhan : Chief Financial Officer

Robert Eid : Managing Director

Hesham Al-Jabr : Authorized Board Member

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2016 and 2015
(Saudi Riyals in Thousands)

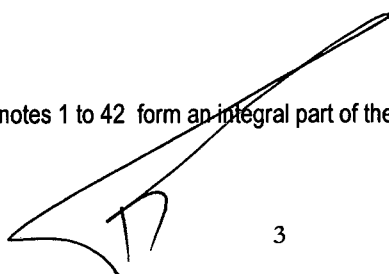
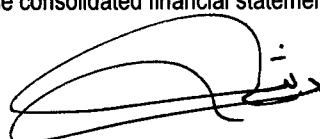
	Notes	2016	2015
Special commission income	20	5,738,172	4,438,779
Special commission expense	20	1,592,687	593,942
Net special commission income		4,145,485	3,844,837
Fees and commission income, net	21	1,037,127	1,285,924
Exchange income, net		475,145	513,272
Unrealized loss on investments held as FVIS, net		(5,943)	(4,679)
Trading income/(loss), net	22	9,197	(4,363)
Dividend income	23	48,900	46,277
Gains on non-trading investments, net	24	45,484	24,278
Other operating income, net	25	98,742	75,580
Total operating income		5,854,137	5,781,126
Salaries and employee related expenses	29	1,284,243	1,375,471
Rent and premises related expenses		171,625	165,963
Depreciation and amortization	10	233,378	199,323
Other general and administrative expenses		571,511	502,434
Impairment charges for credit losses, net	7	726,136	575,504
Impairment charges for investments, net	6	37,645	43,455
Total operating expenses		3,024,538	2,862,150
Net operating income		2,829,599	2,918,976
Share in earnings of associates, net	8	32,278	37,500
Net income for the year		2,861,877	2,956,476
Attributable to:			
Equity holders of the Bank		2,853,901	2,964,417
Non-controlling interest		7,976	(7,941)
Net income for the year		2,861,877	2,956,476
Basic and diluted earnings (in SAR per share)	26	2.86	2.96

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015
(Saudi Riyals in Thousands)

	<u>2016</u>	<u>2015</u>
Net income for the year	<u>2,861,877</u>	<u>2,956,476</u>
Other comprehensive income:		
Items that are or may be reclassified to the consolidated statement of income in subsequent periods		
Available for sale financial assets:		
- Net changes in fair value	72,302	(197,389)
- Net amounts transferred to consolidated statement of income	(7,839)	19,589
Cash flows hedges:		
- Net amounts transferred to consolidated statement of income	-	1,019
Total other comprehensive income (loss)	<u>64,463</u>	<u>(176,781)</u>
Total comprehensive income for the year	<u>2,926,340</u>	<u>2,779,695</u>
Attributable to:		
Equity holders of the Bank	2,918,364	2,787,636
Non-controlling interest	<u>7,976</u>	<u>(7,941)</u>
Total comprehensive income for the year	<u>2,926,340</u>	<u>2,779,695</u>

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015
(Saudi Riyals in Thousands)

Attributable to equity holders of the Bank

2016	Notes	Share capital	Statutory reserve	Other reserves				Total	Non-controlling interest	Total equity
				Available for sale financial assets	Cash flow hedges	Retained earnings	Proposed dividends			
Balance at the beginning of the year		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 year										
Net changes in fair value of available for sale investments				72,302	-	-	-	72,302	-	72,302
Net transfers to consolidated income statement				(7,839)	-	-	-	(7,839)	-	(7,839)
Net income for the year				-	-	2,853,901	-	2,853,901	7,976	2,861,877
Total comprehensive income for the year				64,463	-	2,853,901	-	2,918,364	7,976	2,926,340
Transfer to statutory reserve	18	-	714,000	-	-	(714,000)	-	-	-	-
2015 final dividends paid	27	-	-	-	-	-	(550,000)	(550,000)	-	(550,000)
Gross dividends – Interim and proposed	27	-	-	-	-	(1,477,000)	450,000	(1,027,000)	-	(1,027,000)
Distributions from a subsidiary		-	-	-	-	-	-	-	(56,640)	(56,640)
Balance at the end of the year		10,000,000	9,446,000	166,514	-	3,172,847	450,000	23,235,361	689,192	23,924,553

Attributable to equity holders of the Bank

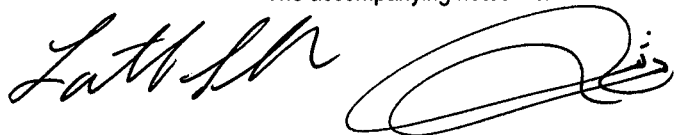
		Other reserves								
	Notes	Share capital	Statutory reserve	Available for sale financial assets	Cash flow hedges	Retained earnings	Proposed dividends	Total	Non-controlling interest	Total equity
2015										
Balance at the beginning of the year		10,000,000	7,990,000	279,851	(1,019)	1,782,481	550,000	20,601,313	38,446	20,639,759
Changes in equity for the year										
Net changes in fair value of available for sale investments				(197,389)	-	-	-	(197,389)	-	(197,389)
Net transfers to consolidated income statement				19,589	1,019	-	-	20,608	-	20,608
Net income for the year				-	-	2,964,417	-	2,964,417	(7,941)	2,956,476
Total comprehensive income for the year				(177,800)	1,019	2,964,417	-	2,787,636	(7,941)	2,779,695
Transfer to statutory reserve	18	-	742,000	-	-	(742,000)	-	-	-	-
2014 final dividends paid	27	-	-	-	-	-	(550,000)	(550,000)	-	(550,000)
Gross dividends – Interim and proposed	27	-	-	-	-	(1,494,952)	550,000	(944,952)	-	(944,952)
Non-controlling interest arising on consolidation	1	-	-	-	-	-	-	-	707,351	707,351
Balance at the end of the year		10,000,000	8,732,000	102,051	-	2,509,946	550,000	21,893,997	737,856	22,631,853

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CASH FLOW
For the years ended December 31, 2016 and 2015
(Saudi Riyals in Thousands)

	Notes	2016	2015
OPERATING ACTIVITIES			
Net income for the year		2,861,877	2,956,476
Adjustments to reconcile net income for the year to net cash from/(used in) operating activities:			
Accretion of discounts of non-trading investments, net		(8,997)	(84,501)
Gains on non-trading investments, net	24	(45,484)	(24,278)
Unrealized losses on revaluation of FVIS investments, net		5,943	4,679
Dividend income	23	(48,900)	(46,277)
Depreciation of investment property	9	24,793	24,807
Depreciation and amortization of property and equipment	10	233,378	199,323
Losses on disposal of property and equipment, net	25	160	1,695
Share in earnings of associates, net	8	(32,278)	(37,500)
Impairment charges for credit losses, net	7	726,136	575,504
Impairment charges for investments, net	6	37,645	43,455
		<u>3,754,273</u>	<u>3,613,383</u>
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	135,372	(883,706)
Investments held at FVIS (including trading investments)	6	1,313,888	(1,310,701)
Positive fair value derivatives		(169,612)	(133,489)
Loans and advances		(613,996)	(12,101,665)
Other assets		154,209	95,468
Other real estate		23,259	-
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,814,242)	(3,343,625)
Negative fair value derivatives		100,840	98,635
Customers' deposits		146,263	6,021,627
Other liabilities		(683,453)	49,276
Net cash from/(used in) operating activities		<u>2,346,801</u>	<u>(7,894,797)</u>
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		21,162,037	19,060,668
Purchase of non-trading investments		(14,669,137)	(17,211,838)
Investment in associate	8	(52,500)	-
Purchase of investment property	9	(290)	(1,700,673)
Purchase of property and equipment	10	(134,454)	(401,382)
Proceeds from sale of property and equipment		7,114	880
Dividend received		48,900	46,277
Net cash from/(used in) investing activities		<u>6,361,670</u>	<u>(206,068)</u>
FINANCING ACTIVITIES			
Redemption of debt securities	16	-	(1,687,500)
Proceeds from issuance of sukuk		6,920	2,006,729
Dividends paid, net of zakat		(991,946)	(994,068)
Non-controlling interest from distributions from a subsidiary		(56,640)	-
Non-controlling interest arising on consolidation		-	707,351
Net cash (used in)/from financing activities		<u>(1,041,666)</u>	<u>32,512</u>
Increase/(decrease) in cash and cash equivalents		<u>7,666,805</u>	<u>(8,068,353)</u>
Cash and cash equivalents at the beginning of the year		8,680,518	16,748,871
Cash and cash equivalents at the end of the year	28	<u>16,347,323</u>	<u>8,680,518</u>
Special commission received during the year		5,531,184	4,394,801
Special commission paid during the year		(1,432,076)	(550,272)
Supplemental non-cash information			
Net changes in fair value of available for sale financial assets		72,302	(197,389)

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.



Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015
(Saudi Riyals in Thousands)

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 151 branches (2015: 153 branches) in the Kingdom of Saudi Arabia (the Kingdom) 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 to its customers non-commission based banking products which are approved and supervised by an independent Shari’ah Board established by the Bank.

The consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as “the Group”):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank 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 CMA. The subsidiary commenced its operations effective 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, 1437H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity. 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)

A 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 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 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.

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.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the Provisions of the Regulations for Companies in the Kingdom and the Bank's Articles of Association.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of trading securities, financial instruments held at Fair Value through Income Statement (FVIS), including derivatives and available for sale investments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship and that are otherwise carried at cost are adjusted to record changes in fair value attributable to the risks that are being hedged.

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as otherwise indicated, the financial information presented in SAR has been rounded off to the nearest thousand.

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the current circumstances. Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, management applies judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures that, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the consolidated statement of financial position date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behavior, portfolio management information, credit management techniques and collection and recovery experience in the market. As it is assessed empirically on a periodic basis, the estimated period may vary over time as these factors change.

(ii) Fair value Measurement

The Group measures financial instruments, (such as derivatives), and non-financial assets (such as investment property) at fair value at each statement of financial position date. Fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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:

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

The principal or the most advantageous market must be accessible by the Group.

2. Basis of preparation (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

(ii) Fair value Measurement (continued)

The fair value of an asset or liability is measured using assumptions that market participants acting in their economic best interest would use when pricing the asset or liability.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset to its fullest or by selling it to another market participant that would use the asset to its fullest.

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified and calibrated before they are used to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Areas such as credit risk (both own and counterparty), volatilities and correlations, however, require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility of longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the fair value of financial instruments.

(iii) Impairment of available for sale (AFS) equity and debt investments

Management exercises judgement when considering impairment of AFS equity and debt investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, management evaluates among other factors, the normal volatility in share/debt price. In addition, they consider impairment to be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

Due to current volatility in the market, 30% or more is used as a reasonable measure for significant decline below cost, irrespective of the duration of the decline, and is recognized in the consolidated income statement under impairment charges for investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated income statement under impairment charge for investments.

Management reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to individual assessment of loans and advances.

(iv) Classification of held to maturity (HTM) investments

The Bank follows the guidance of International Accounting Standard (IAS) 39 when classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. In making this judgement, management evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances (for example, selling close to maturity or an insignificant amount) it will be required to reclassify the entire class as AFS.

(v) Determination of control over investees

The control indicators set out note 3 (b) are subject to management's judgements that can have a significant effect in the case of the Group's interests in investments funds.

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interest of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, except for ANBI Business Gate Fund, the Group has concluded that it acts as an agent for the investors in all cases and therefore has not consolidated these funds.

e) Going concern

Management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

f) Provisions for liabilities and charges

The Bank receives legal claims against it in the normal course of business. Management has used judgement when providing for the likelihood of any claim succeeding. The time needed to conclude legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on due process being followed as required by law.

3. Summary of significant accounting policies

a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of the following amendments to existing standards mentioned below which have had no significant financial impact on the consolidated financial statements of the Group:

- Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
- Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.
- Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:
 - o The materiality requirements in IAS 1
 - o That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated
 - o That entities have flexibility as to the order in which they present the notes to financial statements
 - o That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 27 – “Separate Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.
- Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:
 - o IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
 - o IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
 - o IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

3. Summary of significant accounting policies (continued)

b) Basis of consolidation

The consolidated financial statements comprise the 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 year 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 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 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 it 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 arrangement 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 over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the 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 the 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 Group and are presented separately in the consolidated income statement and separately from equity holders of the Bank within equity in the consolidated statement of financial position. Any losses related to the non-controlling interest in a subsidiary are allocated to non-controlling interest even if doing so causes non-controlling interest 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 interest is subsequently adjusted for the Group's share of changes in the 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.

3. Summary of significant accounting policies (continued)

c) Investments in associates

Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and/or over which it exercises significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity accounted or recoverable amount.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains and losses on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates.

After application of the equity method of accounting, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in share of earnings of associates in the consolidated income statement.

d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or market convention. For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the settlement date.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps and currency and commission rate options are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in fair values depends on classifying derivatives into the following categories:

i) Derivatives held for trading

Changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed under trading income, net. Derivatives held for trading also include derivatives which do not qualify for hedge accounting and embedded derivatives.

ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself held for trading or designated at FVIS. Embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statement.

iii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3. Summary of significant accounting policies (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting (continued)

In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from fair valuing the hedging instruments to fair value is recognized immediately in the consolidated income statement. An equal and opposite adjustment is made against the carrying amount of the hedged item and recognized in the consolidated income statement. For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and its face value is amortized over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves through the consolidated statement of comprehensive income. The ineffective portion, if any, is recognized in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. However, if the Bank expects that all or a portion of a loss recognized in other reserve will not be recovered in one or more future periods, it reclassifies the amount that is not to be recovered into the consolidated income statement.

Where the hedged forecasted transaction results in the recognition of a non-financial asset or liability, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability at the time such asset or liability is recognized.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, the forecasted transaction is no longer expected to occur or the Bank revokes the designation. At that time, any cumulative gain or loss on the hedging instrument that was previously recognized in other reserves is retained in equity until the forecasted transaction occurs. Where it is not expected that the forecasted transaction will occur and that it will affect the consolidated income statement, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated income statement.

f) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in other comprehensive income to the extent that the hedge is effective. The exchange component of gains or losses on non-monetary items is recognized either in the consolidated income statement or other comprehensive income, in accordance with the treatment of the related gain or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates prevailing on transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing on the date when the fair value was determined.

The monetary assets and liabilities of overseas branch are translated at the rate of exchange prevailing on the consolidated statement of financial position date. The statement of income of the overseas branch is translated at the average exchange rates for the year.

g) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated income statement unless required or permitted by an accounting standard or interpretation and as specifically disclosed in these accounting policies.

3. Summary of significant accounting policies (continued)

h) Revenue and expenses recognition

Special commission income and expenses

Special commission income and expense for all commission bearing financial instruments, except for those classified as held for trading or designated at FVIS, and the fees that are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated income statement on the effective yield basis and include premiums amortized and discounts accreted during the year. The effective commission rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate. Future credit losses are, however, not included. Commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective commission rate on the loan.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized using the original effective commission rate applied to the new carrying amount.

Exchange income / (loss)

Exchange income/loss is recognized when earned/incurred.

Fee and commission income

Fee and commission income are recognized on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized ratably over the period that the service is being provided.

Dividend income

Dividend income is recognized when the right to receive income is established.

Net trading income / (loss)

Revenue arising from trading activities includes all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, foreign exchange differences and dividends from financial assets and financial liabilities held for trading. This also includes the ineffectiveness recorded in hedging transactions.

Rental income

Rental income is recognized in the consolidated income statement on a straight-line basis over the term of the lease. Rent received for future periods are recognised as unearned revenue.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated statement of financial position and are measured in accordance with relevant accounting policies for trading securities, investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The counterparty liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customers' deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in Cash and balances with SAMA, due from banks and other financial institutions or Loans and advances, as appropriate. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. Summary of significant accounting policies (continued)

j) Investments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

All investment securities are initially recognized at fair value plus, in the case of financial assets other than those carried at FVIS, any directly attributable incremental costs of acquisition. Premiums are amortized and discounts accreted on effective yield basis and recognised in special commission income.

The Fair value of securities traded in organized financial markets is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date without any deduction of transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values, which approximate fair value.

For securities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security. Where fair value cannot be derived from an active market, it is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible. Where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent measurement of period-end reporting values of each class of investment are determined on the basis set out in the following paragraphs:

(i) Held at Fair Value Through Income Statement (FVIS)

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired for the purpose of selling or repurchasing in short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in Trading income, net. An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39 except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

After initial recognition, investments held at FVIS are measured at fair value. Changes in fair value are recorded in the consolidated income statement in the year in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected in the consolidated income statement as either Trading income or Income from FVIS financial instruments in line with the underlying assets.

(ii) Available for sale (AFS)

AFS investments are those equity and debt securities intended to be held for an unspecified period of time and which may be sold in response to a need for liquidity or changes in commission rates, exchange rates or equity prices.

AFS investments are non-derivative financial instruments that are designated as AFS or not classified as another category of financial assets.

Investments which are classified as AFS are subsequently measured at fair value. Where the fair value has not been hedged, gains or losses arising from a change in fair value is recognized through the statement of comprehensive income in Other reserves in Equity. On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is transferred to the consolidated income statement.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in consolidated income statement when the Group becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt security investments are recognized in the consolidated income statement.

(iii) Held to maturity (HTM)

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that meet the definition of "Other investments held at amortized cost", are classified as HTM. These investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for any impairment. Amortized cost is calculated using the effective yield method taking into account any discount or premium on acquisition and any fees that are an integral part thereof. Gains or losses on such investments are recognized in the consolidated income statement when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer-term nature of these investments.

3. Summary of significant accounting policies (continued)

j) Investments (continued)

(iv) Other investments held at amortized cost (OI)

Investment securities with fixed or determinable payments that are not quoted in an active market and other than those that the Bank intends to sell immediately or in the near term or those designated as AFS are classified as “other investments held at amortized cost”. Such investments where fair values have not been hedged are stated at amortized cost using the effective yield basis, less provision for any impairment. Gains or losses are recognized in the consolidated income statement when the investment is derecognized or impaired.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when borrowers repay their obligations, the loans are sold or written off or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges, except for loans held as FVIS.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged are classified as loan and advances held at amortized cost and are stated at cost less any amount written off and allowance for impairment.

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

For presentation purposes, impairment charges for credit losses are deducted from loans and advances.

l) Impairment of financial assets

A financial asset is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after initial recognition and where a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and an impairment loss is recognized for changes in the asset's carrying amounts. The present value of the estimated future cash flows is discounted at the financial asset's original effective commission rate. If an asset has a variable special commission rate, the discount rate for measuring any impairment loss is the special commission rate existing on the measurement date.

When a financial asset is uncollectible, it is written off either directly by a charge to the consolidated income statement or against the related allowance for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in impairment charges for credit losses in the consolidated income statement.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the original effective commission rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria that indicate that payment will most likely continue.

These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

In addition to specific impairment charges for credit losses, an allowance for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. This allowance is estimated based on various factors, including credit ratings allocated to a borrower or group of borrowers, current economic conditions, the experience the Bank had in dealing with a borrower or group of borrowers and available historical default information.

3. Summary of significant accounting policies (continued)

l) Impairment of financial assets (continued)

(i) Impairment of financial assets held at amortized cost

Specific impairment charges for credit losses due to impairment of a loan or any other financial asset held at amortized cost is recognized if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

The carrying amount of financial assets at amortized cost is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

(ii) Impairment of available for sale financial assets

In the case of debt instruments classified as AFS, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

For equity investments held as AFS, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the consolidated income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is released to the consolidated income statement.

m) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate.

Subsequent to initial recognition, write downs to fair value, less costs to sell, is charged to the consolidated income statement. Similarly, subsequent gains in fair value less costs to sell are recognized as income to the extent that it does not exceed the cumulative write down. Gains or losses on disposal are recognised in the consolidated income statement.

n) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated.

The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of assets as follows:

Buildings	33 years
Leasehold improvements	over lease period
Furniture, equipment and vehicles	3 to 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each consolidated statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated income statement.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

o) Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. The estimated useful life of buildings is (30-33) years.

No depreciation is charged on land and capital work-in-progress.

The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.

The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognized in the consolidated income statement.

3. Summary of significant accounting policies (continued)

p) Financial liabilities

Money market deposits, customers' deposits, and sukuk are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all special commission bearing financial liabilities, other than those where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted to maturity on an effective yield basis and recognised as special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes of the risk being hedged. The resultant gain or loss is recognized in the consolidated income statement. Gains or losses on financial liabilities carried at amortized cost are recognized in the consolidated income statement when derecognized.

q) Provisions

Provisions other than impairment charges for credit losses are recognized when a reliable estimate can be made of a present legal or constructive obligation as a result of past events that is more likely than not to lead to an outflow of resources to settle the obligation.

r) Accounting for leases

i) Where the Bank is a lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Penalties paid to a lessor when an operating lease is terminated before the lease period has expired, is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is a lessor

When assets are sold under a finance lease, including Shari'ah compliant leases, the present value of the lease payments is recognized as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the effective yield basis, which reflects a constant periodic rate of return.

s) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposit and due from banks and other financial institutions maturing within 90 days.

t) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt arrangement. Financial guarantees are initially recognized in the consolidated financial statements at fair value in Other Liabilities, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'impairment charges for credit losses'. The premium received is recognized in the consolidated income statement in 'Fees and commission income, net' on a straight line basis over the life of the guarantee.

u) End-of-service benefits

The Group operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability.

The Group does not operate a defined benefit plan.

v) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or group of similar financial assets) is derecognized when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. Summary of significant accounting policies (continued)

v) Derecognition of financial instruments (continued)

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability or part thereof can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

w) Zakat and income tax

Zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is calculated on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income tax is calculated on the foreign shareholders' share of net income for the year.

Zakat and income tax are not charged to the Bank's consolidated income statement as they are payable by the shareholders.

Accordingly, Zakat and income tax are deducted from the shareholders equity and deposited on their behalf with General Authority of Zakat and Tax (GAZT). Income tax is the liability of the foreign shareholders and is settled by them accordingly.

x) Shari'ah compliant banking products

In addition to conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shari'ah Board.

All non-interest based banking products are accounted for in accordance with IFRS and conform to the accounting policies described in these consolidated financial statements.

y) Investment management services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds. The Bank's share of these funds is included in the available-for-sale investments and fees earned are disclosed under related party transactions.

4. Cash and balances with SAMA

	2016	2015
Cash in hand	2,836,913	3,105,277
Statutory deposit	7,187,500	7,322,872
Reverse repo with SAMA	9,468,408	-
Current account	11,152	142
Total	19,503,973	10,428,291

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 28). The Bank holds balances with SAMA which has investment grade credit rating.

5. Due from banks and other financial institutions

	2016	2015
Current accounts	1,034,668	1,866,317
Money market placements	2,996,182	3,708,782
Total	4,030,850	5,575,099

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies. The table below shows the credit quality by class:

	2016	2015
Investment grade (credit rating AAA to BBB)	3,654,323	5,169,040
Non-investment grade (credit rating BB to Below BB)	350,705	360,551
Unrated	25,822	45,508
Total	4,030,850	5,575,099

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6. Investments, net

a) Investments are classified as follows:

i) Trading securities

	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
Fixed rate securities	-	-	-	1,312,480	-	1,312,480

ii) Designated as fair value through income statement

Mutual funds and others	-	-	726	8,077	726	8,077
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iii) Available for sale

Fixed rate securities	305,040	319,122	6,793,141	8,408,468	7,098,181	8,727,590
Floating rate securities	914,371	1,001,661	-	-	914,371	1,001,661
Equities	1,180,962	1,074,728	-	389	1,180,962	1,075,117
Other	127,924	224,338	135,606	197,784	263,530	422,122
Available for sale	2,528,297	2,619,849	6,928,747	8,606,641	9,457,044	11,226,490

iv) Other investments held at amortized cost

Fixed rate securities	2,578,919	17,168,141	543,359	474,533	3,122,278	17,642,674
Floating rate securities	12,968,351	3,104,578	-	-	12,968,351	3,104,578
Other investments held at amortized cost	15,547,270	20,272,719	543,359	474,533	16,090,629	20,747,252
Total investments, net	18,075,567	22,892,568	7,472,832	10,401,731	25,548,399	33,294,299

b) The analysis of the investment products is as follows:

	2016			2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	7,305,054	2,915,405	10,220,459	10,164,023	17,518,722	27,682,745
Floating rate securities	-	13,882,722	13,882,722	-	4,106,238	4,106,238
Equities	1,180,962	-	1,180,962	1,073,728	1,389	1,075,117
Others	-	264,256	264,256	-	430,199	430,199
Investments, net	8,486,016	17,062,383	25,548,399	11,237,751	22,056,548	33,294,299

Unquoted fixed rate securities and floating rate notes are mainly Sukuk, treasury bills and Saudi Government Bonds; and others mainly include investments in mutual funds.

c) The analysis of unrecognized gains and losses and fair values of other investments held at amortized cost is as follows:

	2016				2015			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed rate securities	3,122,278	13,352	(141,448)	2,994,182	17,642,673	45,648	(17,975)	17,670,346
Floating rate securities	12,968,351	2,210	(62,411)	12,908,150	3,104,579	3,050	(119,101)	2,988,528
Total	16,090,629	15,562	(203,859)	15,902,332	20,747,252	48,698	(137,076)	20,658,874

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6. Investments, net (continued)

d) The analysis of investments by counter-party is as follows:

	2016	2015
Government and quasi government	20,528,928	28,153,234
Banks and other financial institutions	3,145,574	2,188,851
Corporate	1,600,200	1,208,996
Other	273,697	1,743,218
Total	25,548,399	33,294,299

Investments include SAR 1,052 million (2015: SAR 2,424 million) (note 19d) that have been pledged under repurchase agreements with other banks and customers. The market value of these investments is SAR 1,052 million (2015: SAR 2,423 million).

e) Movement in the allowance for impairment of investments

	2016	2015
Balance at beginning of the year	43,868	413
Provided during the year	37,645	43,868
Amounts recovered during the year	-	(413)
Balance at end of the year	81,513	43,868

2016

	Fixed Rate	Floating Rate	Equities	Other	Total
Balance at beginning of the year	-	-	41,934	1,934	43,868
Provided during the year	-	-	37,645	-	37,645
Amounts recovered during the year	-	-	-	-	-
Balance at end of the year	-	-	79,579	1,934	81,513

2015

	Fixed Rate	Floating Rate	Equities	Other	Total
Balance at beginning of the year	413	-	-	-	413
Provided during the year	-	-	41,934	1,934	43,868
Amounts recovered during the year	(413)	-	-	-	(413)
Balance at end of the year	-	-	41,934	1,934	43,868

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7. Loans and advances, net

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

2016	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	4,338,115	504,504	25,410,888	86,969,119	117,222,626
Non-performing loans and advances, net	39,246	11,765	114,731	840,944	1,006,686
Total loans and advances	4,377,361	516,269	25,525,619	87,810,063	118,229,312
Impairment charges for credit losses, net	(30,397)	(5,737)	(89,636)	(2,592,021)	(2,717,791)
Loans and advances, net	4,346,964	510,532	25,435,983	85,218,042	115,511,521
2015					
Performing loans and advances, gross	4,921,437	415,931	26,957,177	84,893,871	117,188,416
Non-performing loans and advances, net	-	6,220	89,343	1,134,020	1,229,583
Total loans and advances	4,921,437	422,151	27,046,520	86,027,891	118,417,999
Impairment charges for credit losses, net	-	(2,222)	(89,904)	(2,670,048)	(2,762,174)
Loans and advances, net	4,921,437	419,929	26,956,616	83,357,843	115,655,825

For details of impaired loans and advances, refer to note 31 (f).

Loan and advances include Shari'ah compliant banking products: Murabaha and Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 73.0 billion (2015: SAR 73.5 billion).

b) Movement in impairment charges for credit losses are as follows:

2016	Overdrafts	Credit cards	Consumer loans	Commercial loans	Total
Balance at the beginning of the year	-	2,222	89,904	2,670,048	2,762,174
Provided during the year	30,397	21,570	361,790	340,849	754,606
Bad debts written off	-	(18,055)	(362,058)	(418,876)	(798,989)
Balance at the end of the year	30,397	5,737	89,636	2,592,021	2,717,791
2015					
Balance at the beginning of the year	-	2,676	95,724	2,287,554	2,385,954
Provided during the year	-	11,343	253,975	385,872	651,190
Bad debts written off	-	(11,797)	(259,795)	(3,378)	(274,970)
Balance at the end of the year	-	2,222	89,904	2,670,048	2,762,174

Impairment charge for credit losses, net for the year ended December 31, 2016 amounted to SAR 726,136 thousands (2015: SAR 575,504 thousand), including bad debts directly written-off to consolidated income statement amounting to SAR 72,268 thousands (2015: SAR 5,717 thousand), and net of recoveries amounting to SAR 100,738 thousands (2015: SAR 81,403 thousand).

c) Collateral:

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk in loans and advances. Collateral mainly includes time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. It is mainly held against commercial and consumer loans and is managed against relevant exposures at their net realizable values.

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7. Loans and advances, net (continued)

d) Economic sector concentration risk for loans and advances and impairment charges for credit losses are as follows:

2016	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
1. Government and quasi government	-	-	-	-
2. Banks and other financial institutions	1,774,996	-	-	1,774,996
3. Agriculture and fishing	1,502,534	-	-	1,502,534
4. Manufacturing	14,458,869	27,553	(199,619)	14,286,803
5. Mining and quarrying	329,331	-	(1,400)	327,931
6. Electricity, water, gas and health services	4,626,084	-	-	4,626,084
7. Building and construction	8,896,840	88,289	(480,562)	8,504,567
8. Commerce	17,549,161	655,668	(657,922)	17,546,907
9. Transportation and communication	5,480,011	88,625	(90,069)	5,478,567
10. Services	3,347,360	14,186	(55,259)	3,306,287
11. Consumer loans and credit cards	25,915,392	126,496	(65,713)	25,976,175
12. Other	33,342,048	5,869	(285,796)	33,062,121
	117,222,626	1,006,686	(1,836,340)	116,392,972
Allowance for collective impairment	-	-	(881,451)	(881,451)
Total	117,222,626	1,006,686	(2,717,791)	115,511,521

2015	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
1. Government and quasi government	-	-	-	-
2. Banks and other financial institutions	1,618,926	-	-	1,618,926
3. Agriculture and fishing	1,199,435	-	-	1,199,435
4. Manufacturing	14,068,698	4,928	(166,432)	13,907,194
5. Mining and quarrying	649,434	-	-	649,434
6. Electricity, water, gas and health services	4,298,453	-	-	4,298,453
7. Building and construction	9,282,042	419,827	(671,681)	9,030,188
8. Commerce	18,104,012	580,241	(601,148)	18,083,105
9. Transportation and communication	5,420,815	98,781	(100,155)	5,419,441
10. Services	2,784,577	18,705	(44,182)	2,759,100
11. Consumer loans and credit cards	27,373,108	95,563	(62,466)	27,406,205
12. Other	32,388,916	11,538	(275,872)	32,124,582
	117,188,416	1,229,583	(1,921,936)	116,496,063
Allowance for collective impairment	-	-	(840,238)	(840,238)
Total	117,188,416	1,229,583	(2,762,174)	115,655,825

8. Investments in associates

	2016	2015
Balance at beginning of the year	531,617	494,117
Share in earnings, net	32,278	37,500
Share in associate's capital increase	52,500	-
Balance at end of the year	616,395	531,617

Saudi Home Loans Company

The Bank participated in the setting up of Saudi Home Loans Company (the associate). The associate's authorized capital is SAR 2 billion and its issued capital is SAR 800 million. The bank initially paid an amount of SAR 320 million, representing 40% of the issued share capital of the associate. The associate is a specialized Islamic home and real estate finance company with all its products and services being fully Shariah compliant. The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method.

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8. Investments in associates (continued)

Metlife – AIG – ANB Cooperative Insurance Company

The Bank participated in the setting up of Metlife – AIG – ANB Cooperative Insurance Company (the associate) in the Kingdom. The Bank's share is 30% of the associate's total equity capital of SAR 175 million. The associate was launched during the fourth quarter of 2013 and is accounted for under the equity method. SAMA has provided the associate with final approval to conduct insurance business in the Kingdom on February 25, 2014. The Bank initially paid SAR 52.5 million representing 30% of the issued share capital of the associate. The associate's shares are listed on the Saudi Arabian Stock Exchange; and, the quoted value of the Bank's investment in its associate is SAR 258.6 million (2015: SAR 294.7 million).

On April 27, 2015, the associate's board of directors has recommended increasing the associate's capital from SAR 175 million to SAR 350 million through a rights issue. In this connection, the associate submitted its business plan along with related documents to SAMA on June 7, 2015 for approval and SAMA has approved the capital increase on August 31, 2015. The associate has submitted the required documents to the Capital Market Authority on November 15, 2015 and has obtained its approval on January 19, 2016. The Bank owns 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2016.

The Bank's share of associates' financial statements:

	Saudi Home Loans Company		Metlife – AIG – ANB Cooperative Insurance Company	
	2016	2015	2016	2015
Total assets	1,639,474	1,508,908	211,991	159,011
Total liabilities	1,099,744	1,009,325	140,866	132,438
Total equity	539,730	499,583	71,125	26,573
Total income	67,836	73,699	6,916	1,498
Total expenses	(27,723)	(25,462)	(13,590)	(11,132)

9. Investment Property, net

Investment properties consist of land, commercial offices being rented out and a hotel under construction. It is located in the Kingdom and was acquired by the Group's subsidiary, the ANBI Business Gate Fund. The following is the movement in investment property:

	Land	Commercial buildings	Hotel under construction	Total 2016	Total 2015
Cost					
Balance at beginning of the year	550,000	744,133	406,540	1,700,673	-
Additions	-	-	290	290	1,700,673
As at December 31, 2016	550,000	744,133	406,830	1,700,963	1,700,673
Accumulated depreciation					
Balance at beginning of the year	-	24,807	-	24,807	-
Charge for the year	-	24,793	-	24,793	24,807
As at December 31, 2016	-	49,600	-	49,600	24,807
Net book value					
As at December 31, 2016	550,000	694,533	406,830	1,651,363	
As at December 31, 2015	550,000	719,326	406,540		1,675,866

The fair value of investment properties was determined by management based on a valuation performed by two independent and professionally qualified valuers registered with the Royal Institute of Chartered Surveyors using the Income Capitalisation Method and discounted cash flows (DCF). Management assessed this valuation as Level 3 in the hierarchy for determining and disclosing fair value as defined in note 35. The fair value of investment properties is SAR 1,758 million as of December 31, 2016 (2015: SAR 1,813 million) (which is the lower of the two independent valuations), compared with a carrying value of SAR 1,651 million as of December 31, 2016 (2015: SAR 1,676 million).

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10. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in- progress	Total 2016	Total 2015
Cost							
Balance at beginning of the year	1,429,029	529,095	740,587	1,177,933	107,647	3,984,291	3,620,140
Additions	174	7,433	64,857	20,586	41,404	134,454	401,382
Disposals	(1,500)	(7,544)	(7,944)	(10,905)	(3,436)	(31,329)	(37,231)
Transfers	(19,084)	67,126	1,625	34,348	(84,015)	-	-
Balance at end of the year	1,408,619	596,110	799,125	1,221,962	61,600	4,087,416	3,984,291
Accumulated depreciation							
Balance at beginning of the year	359,437	365,690	324,723	989,021	-	2,038,871	1,874,204
Charge for the year	38,629	43,169	80,503	71,077	-	233,378	199,323
Disposals	(958)	(6,904)	(5,395)	(10,798)	-	(24,055)	(34,656)
Transfers	(18,993)	18,993	-	-	-	-	-
Balance at end of the year	378,115	420,948	399,831	1,049,300	-	2,248,194	2,038,871
Net book value							
As at December 31, 2016	1,030,504	175,162	399,294	172,662	61,600	1,839,222	
As at December 31, 2015	1,069,592	163,405	415,864	188,912	107,647		1,945,420

11. Other assets

	2016	2015
Accrued special commission receivable - derivatives	24,235	21,883
Prepaid expenses	175,319	270,186
Other	511,041	572,736
Total	710,595	864,805

12. Derivative financial instruments

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price on a date in the future. Forwards are customized contracts transacted in the over the counter market.

Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges with changes in fair values settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for the cash settlement, on a specified future date or series of dates, of the difference between the contracted commission rate and the market rate calculated on a notional principal.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell, on a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

12. Derivative financial instruments (continued)

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order to, inter alia, enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting, price differentials between markets or products.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors (the Board) within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the set limits. The Board has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap to within the set limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for hedge accounting and related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against commission rate risk arising from specifically identified fixed commission rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as either fair value or cash flow hedges.

The tables below show the notional amounts and the positive and negative fair values of derivative financial instruments analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, 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 market risk.

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12. Derivative financial instruments (continued)

	<u>Notional amounts by term to maturity</u>							
<u>2016</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount total</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Monthly average</u>
Held for trading:								
Commission rate and cross currency swaps	126,909	119,737	8,593,057	-	44,759	6,648,290	1,900,008	11,013,870
Commission rate futures and options	138,665	133,890	10,174,085	3,952,240	-	3,137,660	3,084,185	2,027,875
Forward foreign exchange and commodity contracts	131,360	97,055	10,346,134	7,910,116	1,806,520	629,498	-	11,729,466
Currency and commodity options	36,558	35,030	7,704,165	1,944,412	4,513,297	1,246,456	-	12,839,632
Held as fair value hedges:								
Commission rate swaps	26,278	54,077	8,689,459	1,196,360	394,789	6,248,280	850,030	11,606,066
Total	459,770	439,789	45,506,900	15,003,128	6,759,365	17,910,184	5,834,223	49,216,909

	<u>Notional amounts by term to maturity</u>							
<u>2015</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount total</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Monthly average</u>
Held for trading:								
Commission rate swaps	29,825	18,952	7,483,969	-	23,826	6,785,143	675,000	9,734,475
Commission rate futures and options	8,169	6,879	2,261,124	-	11,124	2,250,000	-	1,039,777
Forward foreign exchange and commodity contracts	96,476	67,783	6,484,658	3,558,391	1,649,838	1,276,429	-	8,735,692
Currency and commodity options	145,528	136,047	16,643,582	2,562,516	7,955,998	6,125,068	-	19,765,746
Held as fair value hedges:								
Commission rate swaps	10,160	109,288	13,132,446	937,500	1,918,826	9,713,620	562,500	13,776,445
Total	290,158	338,949	46,005,779	7,058,407	11,559,612	26,150,260	1,237,500	53,052,135

Derivatives have been disclosed at gross amounts as at the consolidated statement of financial position date and have not been netted off by cash margins placed and received against derivatives, which are detailed as follows:

	2016	2015
Held for trading:		
Commission rate swaps	(32,453)	6,258
Forward foreign exchange contracts	(1,562)	227
Currency options	5,644	20,211
Held as fair value hedges:		
Commission rate swaps	40,661	43,273
Total	12,290	69,969

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value:

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2016						
Fixed commission rate investments	3,992,328	3,957,555	Fair value	Commission rate swap	140,935	165,559
Fixed commission rate loans	4,733,504	4,731,904	Fair value	Commission rate swap	24,009	22,409
Fixed commission rate deposits	-	-	Fair value	Commission rate swap	-	-
2015						
Fixed commission rate investments	6,179,210	6,114,168	Fair value	Commission rate swap	8,169	70,814
Fixed commission rate loans	5,172,144	5,143,278	Fair value	Commission rate swap	10,160	39,026
Fixed commission rate deposits	1,881,326	1,875,000	Fair value	Commission rate swap	-	6,326

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12. Derivative financial instruments (continued)

Cash flow hedges

The Bank is exposed to variability in future commission rate cash flows on non-trading assets and liabilities which bear commission at a variable rate. The bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. For the years ended December 31, 2016 and 2015 the Bank had no outstanding cash flow hedges.

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative gains of SAR 57.7 thousands from equity to the consolidated income statement (2015: nil).

Approximately 62% (2015: 39%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 27% (2015: 13%) of the positive fair value contracts are with any single counter-party at the consolidated statement of financial position date. Derivative activities are mainly carried out by the Bank's treasury segment.

13. Due to banks and other financial institutions

	2016	2015
Current accounts	297,249	185,339
Money market deposits	3,561,622	5,487,774
Total	3,858,871	5,673,113

14. Customers' deposits

	2016	2015
Demand	65,092,740	66,264,114
Time	65,003,835	63,902,499
Saving	93,124	107,820
Other	5,717,758	5,486,761
Total	135,907,457	135,761,194

Time deposits include deposits against sale of securities of SAR 596 million (2015: SAR 1,012 million) (note 19d) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 4,543 million (2015: SAR 4,016 million) of margins held against irrevocable commitments.

The above include foreign currency deposits as follows:

	2016	2015
Time	5,517,032	21,213,494
Demand	2,557,214	2,055,750
Saving	2,828	2,458
Other	177,779	149,296
Total	8,254,853	23,420,998

15. Other liabilities

	2016	2015
Accrued special commission payable-derivatives	20,550	127,259
Trustee for sale of real estate – current deposit	164,745	351,860
Provision for end of service benefits	493,353	503,166
Accrued expenses	575,616	556,523
Zakat and others	1,289,007	959,595
Others	1,316,591	1,506,491
Total	3,859,862	4,004,894

16. Debt securities and Sukuk

	2016	2015
Euro Medium Term floating rate Notes (A)	-	-
Unsecured Tier II Capital - Sukuk (B)	2,018,190	2,011,270
Total	2,018,190	2,011,270

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16. Debt securities and Sukuk (continued)

(A) During the year ended December 31, 2006, the Bank issued USD 500 million; 10 year subordinated floating rate notes (the notes) under its USD 850 million EMTN program. The notes initially carried a special commission rate of Libor plus 83 bps. The notes were non-convertible, unsecured and listed on the London stock exchange. These notes were callable after 5 years from their date of issuance. Effective October 31, 2011 and based on the step-up condition, the commission rate had been adjusted to Libor plus 133 bps.

During the year ended December 31, 2009, USD 50 million was purchased from the secondary market and retired. On October 31, 2015 the Bank exercised its call option to early redeem 100% of the principal amount of outstanding notes, together with the accrued interest till the option redemption date.

(B) On October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carry a special commission rate of SIBOR plus 140 bps.

17. Share capital

As at December 31, 2016, the authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (2015: 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2016	2015
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

18. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 714 million has been transferred from the net income for the year ended December 31, 2016 (2015: SAR 742 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

a) Legal proceedings

As at December 31, 2016 and 2015 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as professional legal advice indicates that it is unlikely that a significant loss will arise.

b) Capital commitments

As at December 31, 2016 the Bank had capital commitments of SAR 47 million (2015: SAR 55 million) in respect of building and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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19. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

i) The contractual maturity structure of the Bank's commitments and contingencies is as follows:

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,353,329	886,942	736,625	-	3,976,896
Letters of guarantee	5,055,802	14,630,023	5,229,766	198,807	25,114,398
Acceptances	925,168	693,955	379	-	1,619,502
Irrevocable commitments to extend credit	105,937	250,660	892,952	1,760,623	3,010,172
Other	-	-	-	101,726	101,726
Total	8,440,236	16,461,580	6,859,722	2,061,156	33,822,694

2015	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,619,215	1,457,401	705,059	-	4,781,675
Letters of guarantee	7,251,635	9,490,259	8,643,530	1,270,998	26,656,422
Acceptances	1,169,589	997,569	1,756	-	2,168,914
Irrevocable commitments to extend credit	-	755,737	729,079	942,852	2,427,668
Other	-	-	-	111,731	111,731
Total	11,040,439	12,700,966	10,079,424	2,325,581	36,146,410

The unutilized portion of non-firm commitments as at December 31, 2016, which can be revoked unilaterally at any time by the Bank, amounts to SAR 18,591 million (2015: SAR 21,517 million).

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2016	2015
Corporate	28,172,439	30,150,276
Banks and other financial institutions	4,803,805	5,417,295
Other	846,450	578,839
Total	33,822,694	36,146,410

d) Assets pledged

Securities pledged under repurchase agreements with other banks include government and non-government banks. Assets pledged as collateral with other financial institutions for security are as follows:

	2016		2015	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost	950,000	562,500	2,424,417	1,011,973
Available for sale	101,728	33,545	-	-
Total (notes 6 d and 14)	1,051,728	596,045	2,424,417	1,011,973

e) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Bank is the lessee are as follows:

	2016	2015
Less than 1 year	106,323	105,909
1 to 5 years	240,256	252,568
Over 5 years	132,226	147,271
Total	478,805	505,748

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20. Net special commission income

	2016	2015
Special commission income		
Investments:		
Available for sale	112,352	62,356
Other investments held at amortized cost	309,547	203,567
	<u>421,899</u>	<u>265,923</u>
Due from banks and other financial institutions	64,440	12,862
Loans and advances	5,251,833	4,159,994
Total	<u>5,738,172</u>	<u>4,438,779</u>
Special commission expense		
Due to banks and other financial institutions	76,861	25,812
Customers' deposits	1,451,327	532,875
Debt securities and sukuk	64,499	35,255
Total	<u>1,592,687</u>	<u>593,942</u>
Net special commission income	<u>4,145,485</u>	<u>3,844,837</u>

21. Fees and commission income, net

	2016	2015
Fee and commission income		
Share trading and fund management	75,450	100,776
Trade finance	276,420	304,081
Credit cards	208,618	211,564
Credit facilities	862,305	951,651
Other banking services	361,841	369,334
Total	<u>1,784,634</u>	<u>1,937,406</u>
Fee and commission expense		
Credit cards	134,958	122,301
Custody and brokerage fees	572	1,098
Credit facilities	455,162	346,245
Other banking services	156,815	181,838
Total	<u>747,507</u>	<u>651,482</u>
Fees and commission income, net	<u>1,037,127</u>	<u>1,285,924</u>

22. Trading income/(loss), net

	2016	2015
Debt securities	(2,104)	(13,796)
Derivatives	11,301	9,433
Total	<u>9,197</u>	<u>(4,363)</u>

23. Dividend income

	2016	2015
AFS investments	48,900	46,277

24. Gains from non-trading investments, net

	2016	2015
Realized gains on AFS investments	45,484	24,278

25. Other operating income, net

	2016	2015
Rental income, net	82,636	62,133
Losses on disposal of property and equipment, net	(160)	(1,695)
Others	16,266	15,142
Total	<u>98,742</u>	<u>75,580</u>

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26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 are calculated by dividing the net income for the year attributable to equity holders of the Bank by 1,000 million shares. The diluted earnings per share are the same as the basic earnings per share.

27. Gross dividends, Zakat and Income Tax

Gross dividends are comprised of the following:

	2016	2015
Interim dividends paid (a)	450,000	450,000
Proposed dividends (b)	450,000	550,000
Zakat and others (c)	577,000	494,952
Total	1,477,000	1,494,952

(a) The Board has approved an interim dividend of SAR 450 million for distribution to the shareholders from the net income for the year ended December 31, 2016 (2015: 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.45 per share, net of Zakat and income tax (2015: 0.45 per share, net).

(b) On December 20, 2016 the Board recommended to pay cash dividends of SAR 450 million (2015: SAR 550 million). These dividends are subject to final approval by the general assembly.

(c) Zakat and Others

The dividends are paid to Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Zakat

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 345 million (2015: SAR 296 million).

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 232 million (2015: SAR 246 million).

Status of Zakat and Income Tax Assessments

The Group has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2015 and has received the assessments for the years up to 2008 in which the GAZT raised additional demands aggregating to SAR 334 million for the years 2005 to 2008. The Group has formally contested these assessments and submitted their appeal to the Preliminary Objection Committee (POC). On June 1, 2016, the POC issued a ruling reducing the assessments amount from SAR 334 million to SAR 116 million. The Group is still awaiting the revised assessment from the GAZT. An appeal to the Higher Appeal Committee (HAC) against the POC resolution has been submitted on July 27, 2016; the hearing date is not scheduled until now. Management is confident of a favourable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

The assessments for the years 2009 to 2015 are yet to be raised by the GAZT. However, management believes that the outcome of the assessments will not have a material impact on the consolidated financial statements of the Group.

28. Cash and cash equivalents

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

	2016	2015
Cash and balances with SAMA excluding statutory deposit (note 4)	12,316,473	3,105,419
Due from banks and other financial institutions maturing within ninety days of acquisition	4,030,850	5,575,099
Total	16,347,323	8,680,518

29. Compensation practices

The Bank has implemented a "Risk-Based Compensation Policy" in compliance with the rules issued by SAMA, which are consistent with the principles and standards of the Financial Stability Board (FSB). The policy was approved by the Board and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation. The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Bank's capital. It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by the Bank's compensation practices. The Bank takes into account all types of existing and potential material risks and ensures a balance between general industry practices and bank-specific factors such as business model, financial condition, operating performance, market perception, business prospects and appropriate managerial judgement, etc.

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29. Compensation practices (continued)

The Board, while determining and approving the bonus pool of the Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, etc. Similarly, while allocating the Bank-wide bonus pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance.

The Board has ultimate responsibility for promoting effective governance and sound compensation practices. In order to assist it in overseeing the Compensation policies design and its operation, the Board has appointed a Nomination & Compensation Committee. The Nomination & Compensation Committee comprises three non-executives members of the Board and is chaired by an independent member of the Board. The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank's compensation policy and practices and recommend the same to the Board, for its approval and to ensure adequacy and effectiveness of the policy in meeting its intended objectives. The Committee also reviews the level and composition of remuneration of key executives of the Bank and recommends a risk-adjusted bonus pool to the Board, for approval.

The governance process ensures that the Compensation Policy is consistently applied and operates as intended. The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation.

2016

	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2016
1.	Senior executive requiring SAMA no objections	19	38,233	28,565
2.	Employees engaged in risk taking activities	189	92,298	31,528
3.	Employees engaged in control functions	422	117,234	13,128
4.	Other employees	3,773	676,652	73,348
	Total	4,403	924,417	146,569
	Variable compensation accrued in 2016		115,000	
	Other employment related costs*		244,826	
	Total salaries and employment related expenses		1,284,243	

2015

	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2015
1.	Senior executive requiring SAMA no objections	19	38,831	28,182
2.	Employees engaged in risk taking activities	186	91,166	32,034
3.	Employees engaged in control functions	438	115,100	18,629
4.	Other employees	4,203	685,634	122,073
	Total	4,846	930,731	200,918
	Variable compensation accrued in 2015		122,000	
	Other employment related costs*		322,740	
	Total salaries and employment related expenses		1,375,471	

*Other employment related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits.

30. 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 the segments and to assess its performance.

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

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30. Operating segments (continued)

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

Other

Includes income on capital and unallocated costs and assets and liabilities of Head Office and other supporting departments.

Transactions between 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 not been applied retrospectively due to practicality considerations; hence, the basis for determining intersegment operating income/(expense) for the current year are not consistent with the basis used for December 31, 2015. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom 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 consolidated financial statements.

- a) The Group's total assets and liabilities as at December 31, 2016 and 2015 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

2016	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,646,384	81,688,890	45,777,443	1,720,057	2,175,948	170,008,722
Investments in associates	-	-	-	-	616,395	616,395
Total liabilities	70,312,127	69,597,993	5,524,959	135,825	513,265	146,084,169
Operating income / (loss) from external customers	2,028,481	3,799,425	(288,908)	172,545	142,594	5,854,137
Intersegment operating income/(expense)	303,023	(1,790,974)	1,321,625	-	166,326	-
Total operating income	2,331,504	2,008,451	1,032,717	172,545	308,920	5,854,137
Of which:						
Net Special commission income	1,962,616	1,508,848	484,077	12,827	177,117	4,145,485
Fees and commission income, net	308,366	549,722	9,185	75,354	94,500	1,037,127
Impairment charges for credit losses, net	364,350	361,786	-	-	-	726,136
Impairment charges for investments, net	-	-	37,645	-	-	37,645
Depreciation and amortization	86,663	2,433	2,390	2,427	139,465	233,378
Total operating expenses	1,832,069	871,700	141,327	95,921	83,521	3,024,538
Share in earnings of associates, net	-	-	-	-	32,278	32,278
Net income attributed to non-controlling interest	-	-	-	-	(7,976)	(7,976)
Net income attributed to equity holders of the Bank	499,435	1,136,751	891,390	76,624	249,701	2,853,901

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30. Operating segments (continued)

2015	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	39,172,737	81,990,562	44,489,280	1,703,519	3,065,175	170,421,273
Investments in associates	-	-	-	-	531,617	531,617
Total liabilities	66,465,039	72,640,878	8,024,993	171,055	487,455	147,789,420
Operating income from external customers	2,266,234	2,938,150	265,856	140,888	169,998	5,781,126
Intersegment operating income/(expense)	24,061	(703,079)	587,360	-	91,658	-
Total operating income	2,290,295	2,235,071	853,216	140,888	261,656	5,781,126
Of which:						
Net Special commission income	1,726,005	1,729,244	316,209	(22,169)	95,548	3,844,837
Fees and commission income, net	509,314	558,199	12,648	94,800	110,963	1,285,924
Impairment charges for credit losses, net	204,092	371,412	-	-	-	575,504
Impairment charges for investments, net	-	-	43,455	-	-	43,455
Depreciation and amortization	122,313	2,151	3,508	4,002	67,349	199,323
Total operating expenses	1,679,439	882,388	133,557	83,842	82,924	2,862,150
Share in earnings of associates, net	-	-	-	-	37,500	37,500
Net income attributed to non-controlling interest	-	-	-	-	7,941	7,941
Net income attributed to equity holders of the Bank	610,856	1,352,683	719,659	57,046	224,173	2,964,417

b) The Group's credit exposure by operating segments is as follows:

	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
2016						
Consolidated statement of financial position assets	35,004,491	81,504,301	45,309,172	35,601	520,658	162,374,223
Commitment and contingencies	2,622,891	13,686,159	-	50,863	168,115	16,528,028
Derivatives	-	399	873,751	-	-	874,150
2015						
Consolidated statement of financial position assets	35,113,739	81,497,057	43,986,751	23,814	1,191,884	161,813,245
Commitment and contingencies	2,847,412	14,501,103	-	373,116	1,528	17,723,159
Derivatives	-	187	692,953	-	-	693,140

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property and equipment, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 32a).

31. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending and investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments.

The bank manages credit risk by monitoring credit exposures, limiting transactions with specific counter-parties and continually assessing the creditworthiness of counter-parties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor risks and adherence to limits. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk. Credit risk of derivatives represents the potential cost to replace the derivative contracts if counter-parties fail to fulfill their obligation. To control the level of credit risk taken, the Bank assesses counter-parties using the same techniques as for its lending activities.

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31. Credit risk (continued)

Concentration risk arises when a number of counter-parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of individuals or groups of customers in specific locations or industry. It also takes security when appropriate. The Bank seeks additional collateral from a counterparty as soon as impairment indicators are noticed on the relevant individual loan.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and procedures to reflect changes in markets, products and emerging best practices.

Debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6d. Information on credit risk relating to derivative instruments is provided in note 32 and for commitments and contingencies in note 19. Information on the Banks maximum credit exposure by operating segment is given in note 30 and the maximum credit risk exposure and its relative risk weighting is provided in note 38.

The Bank classifies its exposure into thirteen risk categories. Of these, ten categories are for performing and three for non-performing loans and advances. Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type. An independent credit review unit reviews the assigned ratings periodically. Exposures falling below a certain classification threshold are considered to be impaired and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on a portfolio basis for groups of similar credits that are not individually identified as impaired.

a) Credit risk exposures of on consolidated statement of financial position financial assets is as follows:

	2016	2015
Loans and advances, net:		
Consumer loans		
Credit cards	510,532	419,929
Term loans	25,435,983	26,956,616
Total	25,946,515	27,376,545
Corporate loans		
Syndicated loans	16,632,692	16,813,020
Overdrafts	4,377,361	4,943,528
Term loans	68,525,288	66,395,625
Other	29,665	127,107
Total	89,565,006	88,279,280
Investments, net:		
Fixed-rate securities	10,220,459	27,682,745
Floating-rate notes	13,882,722	4,106,238
Other	1,445,218	1,505,316
Total	25,548,399	33,294,299
Gross Total	141,059,920	148,950,124

b) Credit risk exposures of credit related commitments and contingencies:

	2016	2015
Loan commitments and other credit related contingencies	3,010,172	2,427,668
Financial guarantees	30,812,522	33,718,742
Total	33,822,694	36,146,410

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31. Credit risk (continued)

c) Credit quality of loans and advances

	2016	2015
Description		
Neither past due nor impaired	111,837,364	113,628,989
Past due but not impaired	2,690,289	1,548,152
Impaired (any loan with specific provision)	3,701,659	3,240,858
Total loans and advances	118,229,312	118,417,999
Impairment charges for credit losses, net	(2,717,791)	(2,762,174)
Loans and advances, net	115,511,521	115,655,825

d) Loans and advances that are neither past due nor impaired

	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
2016					
Grades:					
Low risk (1-4)	255,639	459,562	21,220,438	21,161,564	43,097,203
Acceptable risk (5-8)	3,910,163	-	2,806,228	61,017,136	67,733,527
Watch list (9-10)	48,229	-	-	958,405	1,006,634
Total	4,214,031	459,562	24,026,666	83,137,105	111,837,364
2015					
Grades:					
Low risk (1-4)	407,865	374,087	22,099,892	25,734,073	48,615,917
Acceptable risk (5-8)	4,337,944	-	3,361,385	56,037,252	63,736,581
Watch list (9-10)	51,785	-	-	1,224,706	1,276,491
Total	4,797,594	374,087	25,461,277	82,996,031	113,628,989

Grade 1-4: having financial conditions, risk factors and ability to repay that are superior to excellent. For retail, it includes loans with salary assignment or real estate collateral.

Grade 5-8: having financial conditions, risk factors and ability to repay that are acceptable to good, in addition to other retail loans not included in the above category.

Grade 9-10: A credit that is currently protected but has potential weaknesses that deserve management's close attention.

e) Loans and advances past due but not impaired

	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
2016					
Past due up to 30 days	-	33,147	1,092,106	350,141	1,475,394
Past due (31-60) days	-	-	-	169,122	169,122
Past due (61-90) days	-	-	-	337,885	337,885
Past due (91-180) days	-	-	-	707,888	707,888
Total	-	33,147	1,092,106	1,565,036	2,690,289
2015					
Past due up to 30 days	-	34,469	1,218,023	232,704	1,485,196
Past due (31-60) days	-	-	-	21,437	21,437
Past due (61-90) days	-	-	-	15,660	15,660
Past due (91-180) days	-	-	-	25,859	25,859
Total	-	34,469	1,218,023	295,660	1,548,152

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31. Credit risk (continued)

f) Impaired loans and advances

	2016	2015
Commercial loans and overdrafts	3,271,252	2,860,044
Consumer loans and credit cards	430,407	380,814
Total	3,701,659	3,240,858

Special commission income on impaired loans and advances amounted to SAR 132,093 thousands for the year ended December 31, 2016 (2015: SAR 58,551).

Impaired loans and advances are categorized as follows:

	2016	2015
Performing loans and advances	2,694,973	2,011,275
Non-performing loans and advances, net	1,006,686	1,229,583
Total	3,701,659	3,240,858

g) Credit risk exposure of investments

2016	Investment grade	Non-investment grade	Unrated	Total
Trading securities	-	-	-	-
Held as FVIS	-	-	726	726
Available for sale	8,410,823	-	1,046,221	9,457,044
Other investments held at amortised cost	14,485,371	33,906	1,571,352	16,090,629
Total	22,896,194	33,906	2,618,299	25,548,399

2015	Investment grade	Non-investment grade	Unrated	Total
Trading securities	1,312,480	-	-	1,312,480
Held as FVIS	-	-	8,077	8,077
Available for sale	10,058,844	74,930	1,092,716	11,226,490
Other investments held at amortised cost	19,940,846	33,857	772,549	20,747,252
Total	31,312,170	108,787	1,873,342	33,294,299

Investment Grade comprises investments having credit rating equivalent to Standard & Poor's rating of AAA to BBB. The unrated investments comprise mainly mutual funds and investment in equities.

h) Collateral

The bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements as follows:

	2016	2015
Nature of collateral held as security		
Listed securities	19,338,266	19,372,008
Properties	23,342,303	19,499,177
Others	11,469,168	11,160,672
Total	54,149,737	50,031,857

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32. Concentration risk of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

The bank's main credit exposure by geographical region is as follows:

2016	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	2,834,972	-	1,941	-	-	-	-	2,836,913
Balances with SAMA	16,667,060	-	-	-	-	-	-	16,667,060
Due from banks and other financial institutions								
Current accounts	21,414	192,421	190,180	470,438	-	134,250	25,965	1,034,668
Money market placements	2,336,000	507,400	152,782	-	-	-	-	2,996,182
Investments, net								
Held as FVIS	-	-	726	-	-	-	-	726
Available for sale	2,895,436	1,026,915	113,596	5,421,097	-	-	-	9,457,044
Other investments held at amortised cost	15,771,936	318,693	-	-	-	-	-	16,090,629
Positive fair value of derivatives								
Held for trading	105,890	17,512	310,090	-	-	-	-	433,492
Held as fair value hedges	729	-	25,549	-	-	-	-	26,278
Loans and advances, net								
Overdraft	4,279,836	-	66,702	-	-	-	426	4,346,964
Credit cards	510,532	-	-	-	-	-	-	510,532
Consumer loans	25,435,843	-	140	-	-	-	-	25,435,983
Commercial loans and others	82,837,741	627,303	1,619,310	-	-	-	133,688	85,218,042
Other assets	710,595	-	-	-	-	-	-	710,595
Total	154,407,984	2,690,244	2,481,016	5,891,535	-	134,250	160,079	165,765,108
Liabilities								
Due to banks and other financial institutions								
Current accounts	4,988	287,296	4,129	493	-	323	20	297,249
Money market deposit	2,627,067	846,589	87,966	-	-	-	-	3,561,622
Customers' deposits								
Demand	64,962,241	64,209	25,705	-	-	186	40,399	65,092,740
Saving	93,124	-	-	-	-	-	-	93,124
Time	64,821,584	8,579	95,043	453	-	-	78,176	65,003,835
Other	5,717,758	-	-	-	-	-	-	5,717,758
Negative fair value of derivatives								
Held for trading	113,518	12,791	259,403	-	-	-	-	385,712
Held as fair value hedges	2,013	25,433	26,631	-	-	-	-	54,077
Other liabilities								
Accrued expenses and account payable	3,853,438	14	3,472	2,774	-	-	164	3,859,862
Debt securities and sukuk	2,018,190	-	-	-	-	-	-	2,018,190
Total	144,213,921	1,244,911	502,349	3,720	-	509	118,759	146,084,169
Commitments and contingencies								
Letters of credit	1,679,866	458,108	986,373	146,125	3,199	703,225	-	3,976,896
Letters of guarantee	19,674,201	1,071,897	2,262,174	204,691	-	1,894,599	6,836	25,114,398
Acceptances	243,449	115,680	365,816	131,272	1,605	760,678	1,002	1,619,502
Irrevocable commitments to extended credit	3,010,172	-	-	-	-	-	-	3,010,172
Others	101,726	-	-	-	-	-	-	101,726
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	427,452	44,817	287,049	43,994	-	-	574	803,886
Held as fair value hedges	-	-	20,647	49,617	-	-	-	70,264
Commitments and contingencies								
Letters of credit	335,973	91,622	197,275	29,225	640	140,645	-	795,380
Letters of guarantee	9,837,100	535,949	1,131,087	102,346	-	947,300	3,418	12,557,200
Acceptances	243,448	115,680	365,816	131,272	1,605	760,678	1,002	1,619,501
Irrevocable commitments to extended credit	1,505,085	-	-	-	-	-	-	1,505,085
Others	50,862	-	-	-	-	-	-	50,862

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32. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

2015	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	3,103,167	-	2,110	-	-	-	-	3,105,277
Balances with SAMA	7,323,014	-	-	-	-	-	-	7,323,014
Due from banks and other financial institutions								
Current accounts	11,841	304,398	344,536	1,019,210	-	186,082	326	1,866,393
Money market placements	1,687,500	843,750	802,453	375,003	-	-	-	3,708,706
Investments, net								
Trading securities	-	-	-	1,312,480	-	-	-	1,312,480
Held as FVIS	-	-	8,077	-	-	-	-	8,077
Available for sale	2,857,733	1,090,413	721,812	6,449,940	-	106,592	-	11,226,490
Other investments held at amortised cost	20,428,826	318,426	-	-	-	-	-	20,747,252
Positive fair value of derivatives								
Held for trading	199,550	7,290	73,076	48	-	-	34	279,998
Held as fair value hedges	537	-	14	9,609	-	-	-	10,160
Loans and advances, net								
Overdrafts	4,864,232	-	56,474	-	-	-	731	4,921,437
Credit cards	419,929	-	-	-	-	-	-	419,929
Consumer loans	26,913,454	-	206	-	-	-	42,956	26,956,616
Commercial loans and others	79,778,413	3,433,149	146,281	-	-	-	-	83,357,843
Other assets	864,805	-	-	-	-	-	-	864,805
Total	148,453,001	5,997,426	2,155,039	9,166,290	-	292,674	44,047	166,108,477
Liabilities								
Due to banks and other financial institutions								
Current accounts	2,998	170,629	6,687	514	-	4,469	42	185,339
Money market deposit	3,978,890	1,508,884	-	-	-	-	-	5,487,774
Customers' deposits								
Demand	66,040,091	84,659	128,472	-	-	342	10,550	66,264,114
Saving	107,820	-	-	-	-	-	-	107,820
Time	63,484,325	9,069	408,483	513	-	-	109	63,902,499
Other	5,486,761	-	-	-	-	-	-	5,486,761
Negative fair value of derivatives								
Held for trading	82,763	30,254	113,703	2,938	-	-	3	229,661
Held as fair value hedges	1,875	-	33,898	73,515	-	-	-	109,288
Other liabilities								
Accrued expenses and account payable	3,995,067	-	-	9,827	-	-	-	4,004,894
Debt securities and sukuk	2,011,270	-	-	-	-	-	-	2,011,270
Total	145,191,860	1,803,495	691,243	87,307	-	4,811	10,704	147,789,420
Commitments and contingencies								
Letters of credit	1,948,033	383,263	971,557	454,509	6,498	1,017,815	-	4,781,675
Letters of guarantee	21,062,384	858,022	2,400,902	211,220	-	2,115,801	8,093	26,656,422
Acceptances	698,993	138,697	311,136	234,754	5,993	779,341	-	2,168,914
Irrevocable commitments to extended credit	2,427,668	-	-	-	-	-	-	2,427,668
Others	111,731	-	-	-	-	-	-	111,731
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	462,400	13,744	135,938	13,904	-	-	934	626,920
Held as fair value hedges	-	-	8,139	58,081	-	-	-	66,220
Commitments and contingencies								
Letters of credit	389,607	76,653	194,311	90,902	1,300	203,563	-	956,336
Letters of guarantee	10,531,192	429,011	1,200,451	105,610	-	1,057,901	4,047	13,328,212
Acceptances	698,992	138,697	311,136	234,754	5,993	779,341	-	2,168,913
Irrevocable commitments to extended credit	-	-	-	-	-	-	896,583	896,583
Others	373,115	-	-	-	-	-	-	373,115

32. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's off consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to commitments being exercised.

b) The distributions by geographical concentration of non-performing loans and advances and impairment charges for credit losses are as follows:

	Non-Performing Loans net				Impairment Allowance for Credit Losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
2016								
Saudi Arabia	39,246	11,765	114,731	840,944	30,397	5,737	89,636	2,592,021

	Non-Performing Loans net				Impairment Allowance for Credit Losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
2015								
Saudi Arabia	-	6,220	89,343	1,134,020	-	2,222	89,904	2,670,048

33. Market risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

a) Market risk - Trading book

The Board has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, the Bank periodically applies a VaR (value at risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions regarding changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses risk models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use thereof has limitations due to it being based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR that the bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VaR should occur, on average, not more than once every hundred days.

The VaR represents the market risk in a portfolio at the close of a business day. It does not account for any losses that may occur beyond the defined confidence interval. Actual trading results can, however, differ from the VaR calculations. VaR does not provide a meaningful indication of profits and losses in stressed market conditions.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within a one day horizon. This is considered to be a realistic assumption in most cases but may not be true in situations where there is severe market liquidity for a prolonged period.
- II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed VaR.
- III. VaR is calculated on an end of day basis and does not reflect exposures that may arise on positions during the trading day.
- IV. VaR is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of VaR are recognized by supplementing the VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank carries out stress testing on its trading book to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset and Liabilities Committee (ALCO) for review.

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33. Market risk (continued)

a) Market risk - Trading book (continued)

The Bank's calculated VaR for the years ended December 31, 2016 and 2015 is as follows. All the figures are in SAR million:

	2016				2015			
	Yearend	Average	High	Low	Yearend	Average	High	Low
Special commission rate risk	0.1591	0.4779	4.0411	0.1404	0.2559	0.9537	11.2663	0.1725
Foreign exchange risk	1.1778	0.8333	3.6196	0.1073	1.5496	0.9713	3.0902	0.4035
Diversification effect *	(0.1450)	(0.2593)	n/m	n/m	(0.2437)	(0.4356)	n/m	n/m
Total VaR (one day measure)	1.1920	1.0519	4.1613	0.2651	1.5618	1.4894	11.2509	0.4508

* Total VaR is less than the sum of the VaR of the different market risk types due to risk offsets resulting from a portfolio diversification effect.
n/m – It is not meaningful to compute a diversification effect because the high and low may occur on different days for different risk types.

b) Market risk: non-trading or banking book

Market risk on non-trading or banking positions mainly arises from commission rate and foreign currency exposures and equity price changes.

i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure positions are maintained within the established gap limits.

The following table shows the sensitivity of the Group's consolidated income statement and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at December 31, 2016, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2016 and 2015, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

2016							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	35.96	(0.04)	(0.05)	(0.10)	(0.16)	(0.35)
USD	+10	3.00	(0.18)	(0.27)	(5.06)	0.01	(5.50)
Others	+10	0.68	-	-	(0.02)	-	(0.02)
Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(35.96)	0.04	0.05	0.10	0.16	0.35
USD	-10	(3.00)	0.18	0.27	5.06	(0.01)	5.50
Others	-10	(0.68)	-	-	0.02	-	0.02

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33. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

2015							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	38.82	-	(0.02)	(0.51)	(0.16)	(0.69)
USD	+10	(7.05)	(0.05)	(0.68)	(6.00)	-	(6.73)
Others	+10	0.15	-	(0.04)	(0.04)	-	(0.08)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(38.82)	-	0.02	0.51	0.16	0.69
USD	-10	7.05	0.05	0.68	6.00	-	6.73
Others	-10	(0.15)	-	0.04	0.04	-	0.08

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and derivatives, credit related commitment and contingencies that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

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33. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	9,468,408	-	-	-	10,035,565	19,503,973
Due from banks and other financial institutions	2,996,182	-	-	-	1,034,668	4,030,850
Positive fair value derivatives	459,770	-	-	-	-	459,770
Investments, net						
Held as FVIS	-	-	-	-	726	726
Available for sale	870,777	1,610,560	5,517,034	17,910	1,440,763	9,457,044
Other investments held at amortised cost	12,359,356	699,025	1,085,985	1,933,094	13,169	16,090,629
Loans and advances, net						
Overdrafts	4,346,964	-	-	-	-	4,346,964
Credit cards	510,532	-	-	-	-	510,532
Consumer loans	1,892,820	5,145,850	17,148,343	1,248,970	-	25,435,983
Commercial loans	51,741,222	26,929,039	6,090,114	457,667	-	85,218,042
Investments in associates	-	-	-	-	616,395	616,395
Other real estate	-	-	-	-	136,634	136,634
Investment property, net	-	-	-	-	1,651,363	1,651,363
Property and equipment, net	-	-	-	-	1,839,222	1,839,222
Other assets	-	-	-	-	710,595	710,595
Total assets	84,646,031	34,384,474	29,841,476	3,657,641	17,479,100	170,008,722
Liabilities and equity						
Due to banks and other financial institutions	3,336,278	225,344	-	-	297,249	3,858,871
Negative fair value derivatives	439,789	-	-	-	-	439,789
Customers' deposits	51,735,971	16,315,764	163,499	-	67,692,223	135,907,457
Other liabilities	-	-	-	-	3,859,862	3,859,862
Debt securities and sukuk	-	2,018,190	-	-	-	2,018,190
Equity	-	-	-	-	23,924,553	23,924,553
Total liabilities and equity	55,512,038	18,559,298	163,499	-	95,773,887	170,008,722
On consolidated statement of financial position gap	29,133,993	15,825,176	29,677,977	3,657,641	(78,294,787)	
Off consolidated statement of financial position gap	3,930,669	3,038,622	(6,091,068)	(878,223)	-	
Total commission rate sensitivity gap	33,064,662	18,863,798	23,586,909	2,779,418	(78,294,787)	
Cumulative commission rate sensitivity gap	33,064,662	51,928,460	75,515,369	78,294,787	-	

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33. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

<u>2015</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Non commission bearing</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	-	-	-	-	10,428,291	10,428,291
Due from banks and other financial institutions	3,708,782	-	-	-	1,866,317	5,575,099
Positive fair value derivatives	290,158	-	-	-	-	290,158
Investments, net						
Trading securities	-	-	-	-	1,312,480	1,312,480
Held as FVIS	-	-	-	-	8,077	8,077
Available for sale	1,341,212	725,131	7,663,758	-	1,496,389	11,226,490
Other investments held at amortised cost	16,032,742	1,653,517	1,004,457	2,040,453	16,083	20,747,252
Loans and advances, net						
Overdrafts	4,921,437	-	-	-	-	4,921,437
Credit cards	419,929	-	-	-	-	419,929
Consumer loans	2,008,168	5,586,061	18,274,440	1,087,947	-	26,956,616
Commercial loans	52,012,852	25,082,091	6,156,734	106,166	-	83,357,843
Investments in associates	-	-	-	-	531,617	531,617
Other real estate	-	-	-	-	159,893	159,893
Investment property, net	-	-	-	-	1,675,866	1,675,866
Property and equipment, net	-	-	-	-	1,945,420	1,945,420
Other assets	-	-	-	-	864,805	864,805
Total assets	<u>80,735,280</u>	<u>33,046,800</u>	<u>33,099,389</u>	<u>3,234,566</u>	<u>20,305,238</u>	<u>170,421,273</u>
Liabilities and equity						
Due to banks and other financial institutions	5,487,774	-	-	-	185,339	5,673,113
Negative fair value derivatives	338,949	-	-	-	-	338,949
Customers' deposits	51,698,112	14,776,447	48,300	-	69,238,335	135,761,194
Other liabilities	-	-	-	-	4,004,894	4,004,894
Debt securities and sukuk	-	2,011,270	-	-	-	2,011,270
Equity	-	-	-	-	22,631,853	22,631,853
Total liabilities and equity	<u>57,524,835</u>	<u>16,787,717</u>	<u>48,300</u>	<u>-</u>	<u>96,060,421</u>	<u>170,421,273</u>
On consolidated statement of financial position gap	<u>23,210,445</u>	<u>16,259,083</u>	<u>33,051,089</u>	<u>3,234,566</u>	<u>(75,755,183)</u>	
Off consolidated statement of financial position gap	<u>3,042,324</u>	<u>7,200,401</u>	<u>(9,680,261)</u>	<u>(562,464)</u>	<u>-</u>	
Total commission rate sensitivity gap	<u>26,252,769</u>	<u>23,459,484</u>	<u>23,370,828</u>	<u>2,672,102</u>	<u>(75,755,183)</u>	
Cumulative commission rate sensitivity gap	<u>26,252,769</u>	<u>49,712,253</u>	<u>73,083,081</u>	<u>75,755,183</u>	<u>-</u>	

The off consolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

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33. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

ii) Currency risk

Currency risk represents the risk of changes in the value of financial instruments due to changes in foreign exchange rates. Foreign currency risk exposures that arise in the banking book are transferred to the trading book and are managed as part of the trading portfolio. The Board sets various types of currency risk limits that are monitored daily, including position, stop-loss and VaR limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2016 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR with all other variables held constant, on the consolidated income statement (due to changes in fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to changes in fair values of currency swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated income statement or equity whereas, a negative effect shows a potential net reduction in the consolidated income statement or equity.

<u>Currency risk exposures</u>	<u>2016</u>		<u>2015</u>	
	<u>Changes in currency rate in %</u>	<u>Effect on net income</u>	<u>Changes in currency rate in %</u>	<u>Effect on net income</u>
US Dollar	+5	21.076	+5	(66.995)
	-5	(21.076)	-5	66.995
Euro	+3	(0.184)	+3	(0.006)
	-3	0.184	-3	0.006
Pound Sterling	+3	(0.121)	+3	0.002
	-3	0.121	-3	(0.002)

iii) Currency position

The Bank manages exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	<u>Long (short)</u>	<u>Long (short)</u>
	<u>2016</u>	<u>2015</u>
US Dollar	421,513	(1,339,910)
Euro	(6,132)	(200)
Pound Sterling	(4,026)	76

iv) Equity price risk

Equity price risk refers to the risk of a decrease in the fair values of equities in the non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's available for sale equity investments due to reasonable possible change in equity indices, with all other variables held constant is as follows:

<u>Market indices</u>	<u>2016</u>		<u>2015</u>	
	<u>Change in index %</u>	<u>Effect in SAR'000</u>	<u>Change in index %</u>	<u>Effect in SAR'000</u>
Tadawul	+5	63,328	+5	58,816
	-5	(63,328)	-5	(58,816)

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34. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains a healthy balance of cash, cash equivalents and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2015: 7%) of total demand deposits and 4% (2015: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

2016	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	3,314,738	252,965	-	-	297,249	3,864,952
Customers' deposits	47,286,692	21,668,726	167,273	-	67,694,875	136,817,566
Derivative financial instruments						
Contractual amounts payable	40,235	262,050	860,541	125,088	-	1,287,914
Contractual amounts receivable	(30,288)	(232,065)	(860,234)	(136,867)	-	(1,259,454)
Debt securities and Sukuk	11,270	64,164	345,743	2,428,193	-	2,849,370
Total financial liabilities	50,622,647	22,015,840	513,323	2,416,414	67,992,124	143,560,348

2015

Financial liabilities						
Due to banks and other financial institutions	5,238,348	250,561	-	-	185,339	5,674,248
Customers' deposits	51,173,284	15,885,271	104,756	-	69,257,035	136,420,346
Derivative financial instruments						
Contractual amounts payable	48,762	286,942	667,241	45,419	-	1,048,364
Contractual amounts receivable	(23,850)	(225,792)	(635,378)	(44,821)	-	(929,841)
Debt securities and Sukuk	11,270	36,561	191,194	2,239,287	-	2,478,312
Total financial liabilities	56,447,814	16,233,543	327,813	2,239,885	69,442,374	144,691,429

ii) Maturity profile of Bank's assets, liabilities and equity

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See note (i) above for the Bank's contractual undiscounted financial liabilities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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34. Liquidity risk (continued)

ii. Maturity profile of Bank's assets, liabilities and equity (continued)

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	9,468,408	-	-	-	10,035,565	19,503,973
Due from banks and other financial institutions	2,996,182	-	-	-	1,034,668	4,030,850
Positive fair value derivatives	71,952	69,572	78,081	240,165	-	459,770
Investments, net						
Held as FVIS	-	-	-	-	726	726
Available for sale	667,601	1,065,532	5,822,760	460,388	1,440,763	9,457,044
Other investments held at amortised cost	35,673	1,225,972	1,817,953	12,997,862	13,169	16,090,629
Loans and advances, net						
Overdrafts	4,346,964	-	-	-	-	4,346,964
Credit cards	510,532	-	-	-	-	510,532
Consumer loans	1,892,820	5,145,850	17,148,343	1,248,970	-	25,435,983
Commercial loans and others	39,927,506	18,897,080	18,521,556	7,871,900	-	85,218,042
Investments in associates	-	-	-	-	616,395	616,395
Other real estate	-	-	-	-	136,634	136,634
Investment property, net	-	-	-	-	1,651,363	1,651,363
Property and equipment, net	-	-	-	-	1,839,222	1,839,222
Other assets	-	-	-	-	710,595	710,595
Total assets	59,917,638	26,404,006	43,388,693	22,819,285	17,479,100	170,008,722
Liabilities and equity						
Due from banks and other financial institutions	3,336,278	225,344	-	-	297,249	3,858,871
Negative fair value derivatives	62,249	53,866	83,353	240,321	-	439,789
Customers' deposits	51,735,971	16,315,764	163,499	-	67,692,223	135,907,457
Other liabilities	-	-	-	-	3,859,862	3,859,862
Debt securities and sukuk	-	18,190	-	2,000,000	-	2,018,190
Equity	-	-	-	-	23,924,553	23,924,553
Total liabilities and equity	55,134,498	16,613,164	246,852	2,240,321	95,773,887	170,008,722

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34. Liquidity risk (continued)

ii. Maturity profile of Bank's assets, liabilities and equity (continued)

<u>2015</u>	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	10,428,291	10,428,291
Due from banks and other financial institutions	3,709,782	-	-	-	1,865,317	5,575,099
Positive fair value derivatives	160,117	22,147	102,951	4,943	-	290,158
Investments, net						
Trading securities	-	-	-	-	1,312,480	1,312,480
Held as FVIS	-	-	-	-	8,077	8,077
Available for sale	234,786	936,491	8,138,686	420,138	1,496,389	11,226,490
Other investments held at amortised cost	13,461,297	1,232,299	2,590,262	3,447,310	16,084	20,747,252
Loans and advances, net						
Overdrafts	4,921,437	-	-	-	-	4,921,437
Credit cards	419,929	-	-	-	-	419,929
Consumer loans	2,008,168	5,586,061	18,274,440	1,087,947	-	26,956,616
Commercial loans and others	40,481,200	18,188,736	18,436,203	6,251,704	-	83,357,843
Investments in associates	-	-	-	-	531,617	531,617
Other real estate	-	-	-	-	159,893	159,893
Investment property, net	-	-	-	-	1,675,866	1,675,866
Property and equipment, net	-	-	-	-	1,945,420	1,945,420
Other assets	-	-	-	-	864,805	864,805
Total assets	65,396,716	25,965,734	47,542,542	11,212,042	20,304,239	170,421,273
Liabilities and equity						
Due to banks and other financial institutions	5,487,774	-	-	-	185,339	5,673,113
Negative fair value derivatives	127,620	32,698	151,114	27,517	-	338,949
Customers' deposits	51,698,112	14,629,708	195,039	-	69,238,335	135,761,194
Other liabilities	-	-	-	-	4,004,894	4,004,894
Debt securities and sukuk	-	-	-	2,011,270	-	2,011,270
Equity	-	-	-	-	22,631,853	22,631,853
Total liabilities and equity	57,313,506	14,662,406	346,153	2,038,787	96,060,421	170,421,273

35. 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:

- In the accessible principal market for the asset or liability; or
- 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 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 repackaging);
- 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.

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

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

		Fair value			
December 31, 2016	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Trading investments	-	-	-	-	-
Designated as 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 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 held 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

December 31, 2015	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Trading investments	1,312,480	1,312,480	-	-	1,312,480
Designated as FVIS investments	8,077	-	8,077	-	8,077
Available for sale investments	11,226,490	9,486,872	1,653,824	85,794	11,226,490
Positive fair value derivatives	290,158	-	290,158	-	290,158
Financial assets not measured at fair value					
Due from banks and other financial institutions	5,575,099	-	-	-	5,575,099
Other investments held at amortised cost	20,747,252	578,687	20,080,187	-	20,658,874
Loans and advances	115,655,825	-	117,035,320	-	117,035,320

Financial Liabilities

		Fair value			
December 31, 2016	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value 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
Customers' Deposits	135,907,457	-	-	-	135,907,457
Sukuk	2,018,190	-	1,906,366	-	1,906,366

December 31, 2015	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value derivatives	338,949	-	338,949	-	338,949
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	5,673,113	-	-	-	5,673,113
Customers' Deposits	135,761,194	-	-	-	135,761,194
Sukuk	2,011,270	-	1,806,566	-	1,806,566

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

a. 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 31 December 2016 and 2015, 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 funds' most recent reported carrying value of net assets attributable to unitholders	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 funds' most recent reported carrying value of net assets attributable to unitholders.	None	Not applicable
Forward exchange contracts and interest 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 quoted 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 and vice-versa

ii. Transfer between levels of the fair value hierarchy

There have been no transfers between levels of the fair value hierarchy during the years ended December 31, 2016 and 2015.

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35. 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.

	2016	2015
Balance at the beginning of the year	85,794	89,593
Total (losses)/gains in other comprehensive income	(6,693)	10,850
Settlements	(54,886)	(14,649)
Balance at the end of the year	24,215	85,794

36. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board, the related party transactions are performed on an arm's length basis. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

a) The balances as at December 31 resulting from transactions with related parties included in the consolidated financial statements are as follows:

	2016	2015
Non-Saudi Major Shareholder and their Affiliates:		
Due from banks and other financial institutions	46,399	220,977
Due to banks and other financial institutions	586,370	364,500
Commitments, contingencies and others	2,873,693	3,180,000
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	6,339,241	5,965,966
Customers' deposits	11,663,653	12,348,027
Commitments, contingencies and others	1,472,272	1,753,057
Purchase of equipment	681	689
Bank's mutual funds:		
Investments	194,701	296,721
Customers' deposits	537,564	562,012
Associates:		
Loans and advances	2,426,038	2,389,413
Customers' deposits	94,682	49,843
Commitments and contingencies	45,639	47,032
Local sukuk	10,000	10,000

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

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36. Related party transactions (continued)

b) Income and expense transactions with related parties included in the consolidated financial statements are as follows:

	2016	2015
Special commission income	332,808	219,712
Special commission expense	(164,081)	(74,270)
Fees and commission income	62,305	87,332
Equipment rental income	-	10,120
Directors' remuneration	(5,866)	(4,949)
Miscellaneous expenses	(8,383)	(9,866)
Insurance contracts	(3,109)	(56,524)

c) The total amount of compensation paid to key management personnel during the year is as follows:

	2016	2015
Short-term employee benefits (Salaries and allowances)	52,958	57,052
Post-employment benefits (End of service indemnity and social security)	6,307	6,713

Key management personnel are those persons, including an executive director, having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Bank.

37. Non-controlling interests in subsidiaries

The following table summarises the information relating to the Bank's subsidiary that has material non-controlling interests (NCI).

	2016	2015
Summarised statement of financial position		
Investment property	1,651,363	1,675,866
Other assets	23,580	29,402
Liabilities	801,423	765,836
Net assets	873,520	939,432
Carrying amount of NCI	651,034	700,159
Summarised statement of income		
Total operating income	108,631	101,888
Net income/(loss)	10,087	(10,568)
Summarised cash flow statement		
Net cash (used in)/from operating activities	(40,589)	138,368
Net cash used in investing activities	(684)	(992,673)
Net cash from financing activities	40,500	864,000
Net (decrease)/increase in cash and cash equivalents	(773)	9,695

38. 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 year, the Group has fully complied with regulatory 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 consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

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38. Capital Adequacy (continued)

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:

	2016	2015
Credit Risk RWA	142,002,565	142,486,825
Operational Risk RWA	12,892,057	12,021,912
Market Risk RWA	933,982	1,971,389
Total Pillar I RWA	155,828,604	156,480,126
 Tier I Capital	 22,785,361	 21,343,997
Tier II Capital	2,881,451	2,840,238
Total Tier I & II Capital	25,666,812	24,184,235
 Capital Adequacy Ratio %		
Tier I ratio	14.62%	13.64%
Tier I + Tier II ratio	16.47%	15.46%

The increase in regulatory capital for the year is mainly due to the contribution of current-year profit.

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 SAMA in supervising the Bank.

39. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 5,821 million (2015: SAR 3,570 million).

The financial statements of these funds are not consolidated with these consolidated financial statements, except for consolidating the financial statements of ANBI Business Gate Fund, effective December 31, 2015; as the Group either do not consider these material or it is not significantly exposed to variability of return and hence do not qualify to be considered as a subsidiary. However, the Group's share of these non-consolidated funds is included in available for sale investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

40. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning on or after 1 January 2017 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 1, 2017.

Standard or amendment	Summary of requirements	Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2017
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

- IFRS 9 Financial Instruments will be effective from 1 January 2018 and will replace IAS 39 by building models using internal and external experts. The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The Group is in the process of evaluating how the new ECL model will impact its ongoing regulatory capital structure planning and further details will be provided once the assessment is complete.

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41. Comparative figures

During the current year, (1) accrued special commission income and accrued special commission expense relating to prior periods have been reclassified to their respective financial assets and liabilities in the consolidated statement of financial position to conform to the current year's presentation; (2) recoveries on credit losses relating to prior year have been reclassified from other operating income (net) to impairment charges for credit losses (net) in the consolidated income statement to conform to the current year's presentation.

The impact of these reclassifications on the consolidated financial statements is disclosed below.

	As originally reported	Reclassification	Amounts reported after reclassification
December 31, 2015			
Assets			
Due from banks and other financial institutions	5,575,020	79	5,575,099
Investments, net	33,239,175	55,124	33,294,299
Loans and advances, net	115,144,322	511,503	115,655,825
Other assets	1,431,511	(566,706)	864,805
	<u>155,390,028</u>	<u>-</u>	<u>155,390,028</u>
Liabilities			
Due to banks and other financial institutions	5,672,883	230	5,673,113
Customers' deposits	135,686,539	74,655	135,761,194
Other liabilities	4,091,049	(86,155)	4,004,894
Debt securities and sukuk	2,000,000	11,270	2,011,270
	<u>147,450,471</u>	<u>-</u>	<u>147,450,471</u>

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

	As originally reported	Reclassification	Amounts reported after reclassification
December 31, 2015			
Other operating income, net	156,983	(81,403)	75,580
Impairment charges for credit losses, net	(656,907)	81,403	(575,504)
	<u>(499,924)</u>	<u>-</u>	<u>(499,924)</u>

42. Board of directors' approval

The consolidated financial statements were approved by the Board on 24 Jumada I 1438 (corresponding to 21 February 2017).