

Arab National Bank
Annual Report 2012



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

ANB offers a full range of commercial and Islamic products and services to the retail and corporate sectors, including foreign exchange, treasury and investment services. The Bank's wholly owned subsidiary (ANB Invest) offers financial advisory, investment, wealth, mutual funds and asset management and local and international equity trading services.

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The Custodian of the Two Holy Mosques
King Abdullah Bin Abdul Aziz Al Saud



His Royal Highness
Prince Salman Bin Abdul Aziz Al Saud

Chairman's Message



Salah R. Al-Rashed
Chairman

On behalf of the Board of Directors and the bank's management and staff, it gives me great pleasure to present the annual report and closing accounts of Arab National Bank for the year ended December 31, 2012.

The Government of Saudi Arabia's continued implementation of growth-oriented economic policies has successfully insulated the country from the global uncertainty which continues to challenge other financial institutions and indeed the economic stability of some countries. The Banking Industry in Saudi Arabia was a direct beneficiary from these policies and 2012 saw a significant and welcome increase in the demand for credit commensurate with the increase in economic activity.

Arab National Bank delivered another very good set of results in 2012, and continues to maintain its strong financial standing and provide both shareholder value and customer benefit. Net income grew by 9.2% to reach SR 2.37 billion in 2012, compared with SR 2.17 billion in the previous year. Total assets and customer deposits reached SR 136.6 billion and SR 107.6 billion, respectively, by the end of 2012.

Arab National Bank's continued success has been built on a firm foundation of prudent risk management, a culture of regulatory compliance and strong corporate social responsibility. This foundation has served the bank well during a period of major failings by a number of leading global financial institutions. Protecting and enhancing the culture is a shared responsibility taken very seriously throughout the bank, with the tone set by the Board of Directors and the executive management.

In 2013, the bank will continue to execute the strategy to expand the customer base, enhance the range of products and services, focus on diligent risk management and achieve financial goals.

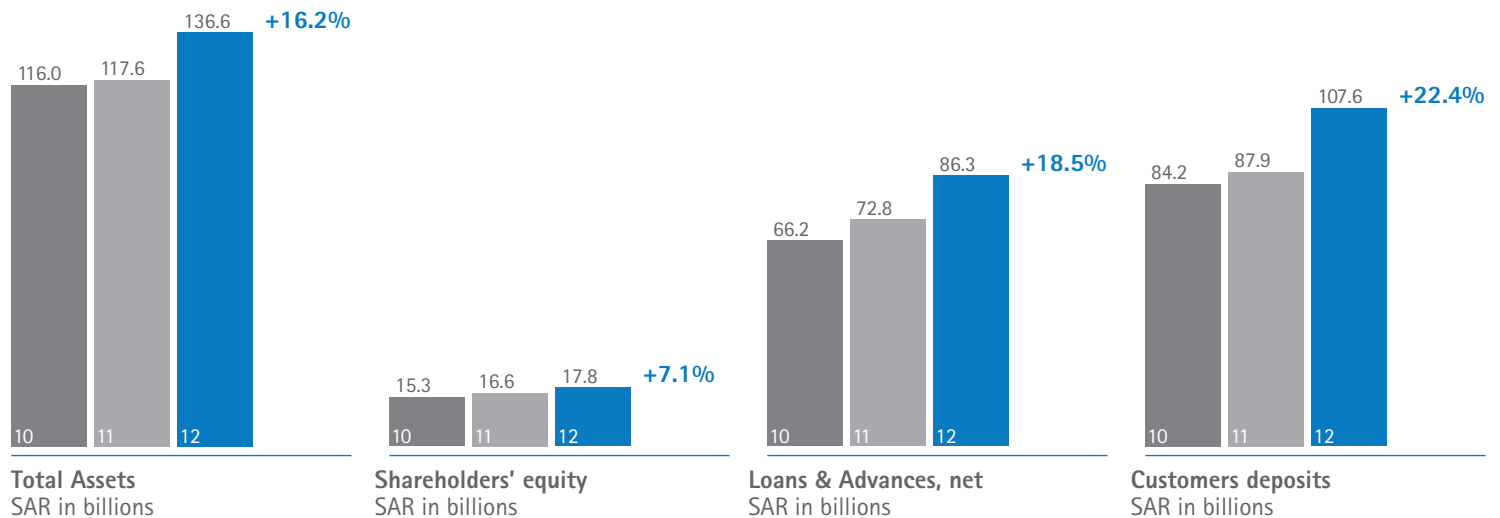
On behalf of the Board of Directors and myself, I want to express my sincere appreciation for the support and wise guidance of the Custodian of The Two Holy Mosques, the Crown Prince, the Minister of Finance and the Governor of the Saudi Arabian Monetary Agency.

I also express the Board's gratitude for the support and trust of our valued customers who are so fundamental to the Bank's success. Finally, I wish to extend my warm appreciation and thanks to the management and staff for their dedication to their customers and colleagues and for representing the Bank so well.

A handwritten signature in black ink, appearing to read 'Salah R. Al-Rashed'. The signature is fluid and cursive, written in Arabic script.

Salah R. Al-Rashed
Chairman

Financial Highlights



	Saudi Riyals in Millions				
	2012	2011	2010	2009	2008
Net Commission income	3.260	3.181	3.158	3.456	3.354
Net Income Before Provisions for credit losses	2.893	2.789	2.875	2.897	2.546
Net Income	2.371	2.171	1.911	2.370	2.486
Expense to Revenue Ratio	40.5%	39.4%	38.6%	36%	35%
Return on Assets (ROA)	1.9%	1.9%	1.7%	2.0%	2.3%
Return on Equity (ROE)	13.8%	13.6%	12.9%	17.5%	21.4%
Investments	24.323	26.082	32.841	23.261	28.228
Loans and Advances, net	86.329	72.844	66.203	66.811	74.662
Total Assets	136.639	117.574	116.035	110.297	121.307
Customers Deposits	107.560	87.859	84.199	82.680	92.743
Total Equity	17.804	16.624	15.291	14.369	12.671

A⁺

Capital Intelligence

A

Fitch Ratings

A¹

Moody's

A

Standard & Poor's

Directors' Report

To: The Shareholders of Arab National Bank

The Board of Directors is pleased to submit the Annual Report of the Arab National Bank for the financial year ended December 31, 2012 to the shareholders.

Introduction

Arab National Bank, a Saudi Joint Stock Company (the Bank), was incorporated pursuant to Royal Decree No. R/38 dated Rajab 18, 1399H (June 13, 1979). The Bank's Head Office is located in Riyadh and operates through 145 branches in the Kingdom of Saudi Arabia and one branch in London, UK. The Bank provides a full range of banking and financial services to its retail and corporate customers.

Financial Results

Net income for the year 2012 amounted to SAR 2,371 million compared to SAR 2,171 million for 2011, an increase of 9.2%. Special commission income increased to SAR 3,260 million compared to SAR 3,181 million in the previous year, while fees and commission income increased by 25% to reach SAR 909 million compared to SAR 727 million in 2011. In addition, the net gains of non-trading investments reached SAR 87 million compared to SAR 35 million for the year 2011.

Operating expenses, before provisions, reached SAR 1,892 million in 2012 compared to SAR 1,775 million in 2011, representing an increase of 6.6%. This increase was particularly due to the growth in the Bank's business activities and continued transformation and expansion of branch network to provide better services to our customers, in addition to the effect of annual inflation rate.

The Bank continued to adopt its conservative risk management policy to consolidate the provision coverage, where provision for credit losses reached SAR 522 million compared to SAR 618 million in 2011, hence, non-performing loans coverage went up from 146% in 2011 to 205% at end of 2012.

Such good results represent a reflection of the Bank's strong financial position, where the loans portfolio grew by 18.5% to reach SAR 86 billion and the investments portfolio reached SAR 24 billion.

Total assets reached SAR 136,639 million, while customer deposits increased by SAR 19.7 billion to reach SAR 107.6 billion in 2012.

Total equity increased by 7.1% to reach SAR 17,804 million compared to SAR 16,624 million at the end of 2011.

Financial Highlights

	SAR millions				
	2012	2011	2010	2009	2008
Loans and advances, net	86,329	72,844	66,203	66,811	74,662
Investments, net	24,323	26,082	32,841	23,261	28,228
Customer deposits	107,560	87,859	84,199	82,680	92,743
Shareholders' Equity	17,804	16,624	15,291	14,369	12,671
Total assets	136,639	117,574	116,035	110,297	121,307
Total liabilities	118,730	100,845	100,638	95,819	108,636
Total operating income	4,757	4,541	4,504	4,493	4,135
Total operating expenses	2,414	2,393	2,609	2,128	1,642
Net Income	2,371	2,171	1,911	2,370	2,486

Geographical Analysis of Revenues

Almost all of the Bank's revenues are achieved through its activities in the Kingdom of Saudi Arabia and distributed as follows:

	SAR '000
Central Region*	2,859,517
Western Region	1,132,615
Eastern Region	764,689
Total	4,756,821

* Including London branch revenues (not significant to disclose separately).

Affiliates and Associates

Arab National Bank Investment Company (ANBI)

The Bank has established a wholly owned subsidiary (directly and indirectly) "ANB Invest", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on 26 Shawal 1428 (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority. The subsidiary's authorized and issued capital is SAR 400 million, and it commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008).

Arabian Heavy Equipment Leasing Company

A 62.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration No. 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (May 10, 2009). The company's authorized capital is SAR 1,000 million and its issued capital is SAR 300 million. The company is engaged in leasing of heavy equipments and operating in compliance with Shariah principals.

Board of Directors



Back Row: Nader Hassan Al Amri / Dr. Robert Eid (Managing Director) / Ahmed A. Al-Akeil / Hesham Abdulatif Al-Jabbar
Front Row: Mohammed A. Alghanamah / Khaled M. Albawardi / Salah R. Al-Rashed (Chairman) / Rashid Saad Al-Rashid / Neme Sabbagh

Shareholders

Saudi Shareholders Arab
Bank Plc 40%

Executive Committee

Dr. Robert Eid - Chairman
Salah R. Al-Rashed
Ahmed A. Al-Akeil
Khaled M. Saad Albawardi
Mohammed A. Alghanamah

Nomination & Compensation Committee

Khaled M. Saad Albawardi - Chairman
Salah R. Al-Rashed
Ahmed A. Al-Akeil

Audit Committee

Ahmed A. Al-Akeil - Chairman
Saleh A. Al Ismail
Mohammed A. Al Omran

Strategy Committee

Rashid Saad Al-Rashid
Neme Sabbagh
Hesham Abdullatif Al-Jabr
Nadir Hassan Alamri
Dr. Robert Eid

Directors' Report

(continued)

Saudi Home Loan Company (SHL)

A 40% owned associate incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company under the commercial registration No. 102030072425. The company's authorized capital is SAR 2,000 million and its issued capital is SAR 800 million. SHL is specialized Islamic home and real estate finance company, as all its products and services are fully Sharia compliant. The company commenced its business in the last quarter of 2007 and is accounted for under the equity method.

In addition, the Bank has participated during the year 2012 in setting up a cooperative insurance company, where the Bank's share will be 30% of the equity capital of the company. The company is still under formation and the legal formalities are not yet finalized.

All the above mentioned affiliates and associates primary business is conducted in the Kingdom of Saudi Arabia.

Dividend Distribution Policy

Following are the rules governing the Bank's dividend distribution:

1. In accordance with the requirements of the Saudi Arabian Monetary Agency, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve, and such transfer may discontinue when this reserve equals the paid up capital of the Bank.
2. The Board of Directors periodically reviews and analyzes the Bank's financial position, capital adequacy and its growth projections. Accordingly, the Board proposes to the Extraordinary General Assembly whether to distribute dividend or not.
3. If the Bank decides to distribute dividend, such dividend will be distributed equally among shareholders in proportion to their shares held, and the eligibility date of dividend is announced.
4. The Board of Directors may decide to distribute interim dividend based on the Bank's financial position.
5. Non-distributed earnings are transferred to the next year or to the general reserve.

The Board of Directors proposed dividend distribution as follows:

	SAR '000
2012 net income	2,371,178
Retained earnings from previous years	1,066,440
Total	3,437,618

Distributed as follows:

Transferred to statutory reserve	600,000
Zakat	407,961
Dividend distribution (SAR 1 per share)	850,000
Retained earnings for 2012	1,579,657

Future Plans

The Bank is executing a number of future plans and strategic initiatives as follows:

- Continuing branch network expansion and transformation
- Incorporate an insurance company
- Continuing upgrade of the Bank's information and communication systems.
- Introduce specialized centres to serve the medium and small enterprises Kingdom wide.

Principal activities

For management purpose the Bank is organized into the following major operating segments:

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

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

Investment and brokerage services

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

Other

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

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

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

The Bank's total assets and liabilities as at December 31, 2012, its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

2012						SAR '000
	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	30,819,872	59,315,473	43,420,050	44,194	3,039,687	136,639,276
Total liabilities	51,822,096	57,833,016	8,393,092	35,897	645,588	118,729,689
Total operating income	2,145,472	1,507,933	873,981	139,804	89,631	4,756,821
Total operating expenses	1,453,112	771,405	72,285	87,586	29,537	2,413,925
Share in earnings of an associate	-	-	-	-	28,129	28,129
Loss attributed to non-controlling interest	-	-	-	-	153	153
Net income attributable to equity holders of the Bank	692,360	736,528	801,696	52,218	88,376	2,371,178
Impairment charges for credit losses, net	194,760	327,036	-	-	-	521,796
Investment in associates	-	-	-	-	430,046	430,046
Depreciation and amortization	156,209	3,354	4,139	7,251	2,460	173,413
Impairment of financial assets	-	-	9,375	-	-	9,375

Risks encountered or may be encountered by the Bank

Risk Management

ANB's Risk Management Group (RMG) provides an independent and centralized risk management function, to ensure that the best balance between risk and return is achieved, in line with the bank's strategic objectives. The major risks that may be encountered by the Bank include mainly the following:

a- Credit risk

Credit exposures arise principally from lending activities that relate to loans and advances, and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments.

b- Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices.

c- Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems or external events. Operational risk includes legal risks such as exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Corporate Governance in the Kingdom of Saudi Arabia

The Bank implements most of the Corporate Governance Guidelines issued by the Capital Market Authority in the Kingdom of Saudi Arabia, except:

Article	Procedure	Reasons
Six	Voting on selection of Board members in the General Assembly should be through accumulative voting method.	Included as an item in the agenda of the next meeting of the General Assembly.

Debt securities in issue

During 2006, the Bank has issued USD 500 million of 10-year subordinated floating rate notes under its USD 850 million Euro Medium Term Notes program. The notes carry a special commission rate of Libor plus 83 bps. The notes are non-convertible, unsecured and listed on the London stock exchange. These notes are callable after 5 years from issuance. Effective October 31, 2011 and based on the step-up condition, the commission rate has been adjusted to Libor plus 133 bps.

During 2009, USD 50 million was purchased from secondary market and retired.

Directors' Report

(continued)

Board of Directors

The Bank's management represented by the chairman and members of the Board is keen to deliver sustainable long-term value to shareholders. Implementation of the strategy set by the Board is delegated to the Managing Director (Chief Executive Officer), who is supported by an Executive Committee of board members.

The Board of Directors is composed of ten members of whom six represent the Saudi shareholders and are appointed in the Ordinary General Assembly Meeting for a term of three years. The remaining four members are appointed by Arab Bank PLC. All directors may be reappointed.

The Board of Directors has a clearly documented schedule and agenda of key issues, which includes the agreement of strategies budgets, major capital expenditures and policies covering treasury, credit, the annual internal audit plan and authority levels for expenditure. All Directors have full and timely access to relevant information maintained by the Company Secretary. They may also opt for independent professional advice where needed in furtherance of their duties at Bank's expense.

The Board of Directors ensures that the Bank's organization structure is effectively established to manage its business. This structure includes appropriate delegation of authority and accountability with regard to acceptable levels of risks, which are documented in the Bank's high level controls framework and are annually reviewed by the Board of Directors.

Board members at December 31, 2012 appointed by Arab Bank are, Neme Sabbagh, Mohammed A. Alghanamah and Dr. Robert Eid (Managing Director).

The Board of Directors as at December 31, 2012 composed of the following:

S	Name	Position
1-	Salah Rashed Al-Rashed	Chairman of the Board (independent)
2-	Dr. Robert Eid	Board member (executive)
3-	Rashid Saad Al-Rashid	Board member (independent)
4-	Ahmed Abdullah Al-Akeil	Board member (independent)
5-	Khaled M. Saad Albawardi	Board member (independent)
6-	Hesham A. Aljabr	Board member (independent)
7-	Nadir Hassan Alamri	Board member (non-executive)
8-	Neme Sabbagh	Board member (non-executive)
9-	Mohammed A. Alghanamah	Board member (non-executive)

Five regular Board meetings were held during 2012. Below is the attendance record:

Date	Attendance record	No. of attendants
March 18, 2012	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Neme Sabbagh, and Mohammed A. Alghanamah.	9
April 5, 2012	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Abdel Hamid A. Shoman, Neme Sabbagh, and Mohammed A. Alghanamah.	9
June 10, 2012	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Abdel Hamid A. Shoman Neme Sabbagh and Mohammed A. Alghanamah.	10
September 30, 2012	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Neme Sabbagh and Mohammed A. Alghanamah.	9
December 16, 2012	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Neme Sabbagh and Mohammed A. Alghanamah.	9

Mr. Abdel Hamid A. Shoman Membership was ended at 16/8/2012 due to his resignation from Arab Bank PLC.

Directors' membership in other joint stock companies' boards

Following is a list of Directors who are board members in other joint stock companies:

Director	Joint stock company
Salah Rashed Al-Rashed	- White Cement Co. - Tech Invest Co.
Rashid Saad Al-Rashid	- Bayan Realty Co. - Watan Investment Co. - Al-Ahsana Amusement & Tourism Co. (AHSANA)
Ahmed Abdullah Al-Akiel	- Southern Province Cement Co. - Sanad Cooperative Insurance Co. - Aldrees for Petroleum Services and Transportation - Saudi Electricity Company - Alyamama Investment & Installment
Khaled M. Saad Albawardi	- Arab Paper Manufacturing Co. - Basic Chemical Industries Co. (BCI)
Hesham Abdullatif Al-Jabr	- Nattily Company for Furniture and Internal Design
Nadir Hassan Alamri	- Saudi Home Loans
Nemeh Sabbagh	- Turkland Bank – Istanbul - Europe Arab Bank – London - Jordan Loan Guarantee – Amman
Mohammed A. Alghanamah	- Al Arabi Investment Group Company – Amman - Arab National Leasing Company – Amman
Robert Eid	- Saudi Home Loans

Principal Board Committees

The Board formed a number of committees, each with specific terms of reference, comprises board members and senior executives.

Executive Committee

The Executive Committee is composed of the Managing Director and four other board members. Chaired by the Managing Director, the Executive Committee meets on average twice a month and acts as a general management committee with authority delegated by the Board of Directors. During 2012, the executive committee held 19 meetings. This Committee is responsible for implementing Bank's policy, monitoring business performance, managing risks and ensuring the effectiveness of internal controls, approving sizable capital expenditure.

During 2012 the executive committee comprised Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Saad Albawardi and Mohammed A. Alghanamah.

Nomination and Compensation Committee

During 2010, Nomination and Compensation Committee was formed, comprises of three non-executive members of the Board ; Khaled M. Saad Albawardi (Chairman) , Salah Rashed Al-Rashed and Ahmed Abdullah Al-Akiel. The committee has the authority to review and suggest amendments to ANB's compensation policy and practices and recommend the same to the Board for its approval. The committee also reviews the level and composition of remuneration of key executives of the Bank, and recommend risk- adjusted bonus pool to the Board for approval. The committee functions also include nomination to Board membership, review the Board structure and determine strengths and weaknesses therein and propose remedy in line with the Bank's interests. The committee held 6 meetings in 2012.

On its meeting held at 27/3/2011, the Extraordinary General Assembly endorsed the selection rules of the Nomination and Remuneration Committee members, duration of membership, the Committee's method of work and the remuneration of the Committee's members as advised by the Board of Directors.

Annual remunerations and compensations to non-executive Board members amounted to 2,647 thousand Riyals and 300 thousand Riyals for executive members, and allowances to non-executive Board members amounted to 372 thousand Riyals and 72 thousand Riyals for executive members. Compensations to non-executive Board members amounted to 499 thousand Riyals including travel and accommodation expenses and SAR 8 thousands for executive members. Salaries to senior executives paid during the year including CEO and CFO amounted to 17,6 million Riyals while their allowances and compensations reached 3,1 million Riyals and their variable compensation reached 15,4 million Riyals while their incentive plans reached 1,5 million Riyals. Remunerations to the audit committee amounted to 360 thousand Riyals and their attendance allowances reached 72 thousand Riyals.

Audit Committee

The Audit Committee assists the Board of Directors in reviewing the effectiveness of the internal control system and for approving the Bank's accounting policies and financial statements. The Audit Committee also approves the plans of the Internal Audit Division, assesses its work results and ensures availability of control systems that secure proper implementation of the Bank's procedures. It provides a direct channel between the external auditors and the Board, ensures the external audit is conducted in a thorough and effective manner and that the reports by the external auditors are properly actioned. The Committee recommends the appointment of external auditors and reviews their plans and work results. The Bank complies with the Rules and Guidelines for Banks in Saudi Arabia for Organizing Audit Committees issued by the Saudi Arabian Monetary Agency.

The Committee is comprised of an independent board member and two independent non-board members. The Committee met eight times during 2012. The committee meets regularly with the Managing Director, the Chief Financial Officer, the Head of Internal Audit, external Auditors and other members of the management team as may be required for discussions and deliberations.

During 2012, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman), Mr. Saleh A. Al- Ismail and Mr. Mohammed A. Alomran.

Directors' Report

(continued)

Strategy Committee

During the year, the Board of Directors formed a strategy committee of five members as follows:

- Robert Eid
- Rashid Saad Al-Rashid
- Neme Sabbagh
- Hesham Abdullatif Al-Jabr
- Nadir Hassan Alamri

The Strategy Committee has the responsibility of dealing with the Bank's strategy matters in general, and the monitoring of the implementation of the Strategy Plan in particular.

The Strategy Committee oversees the strategic planning process, on behalf of the Board, and ensures development, coordination and communication of the Bank's strategic plan through a process of strategy implementation and monitoring.

The committee, in coordination with the Managing Director, ensures that accountabilities, decision making parameters, and information channels exist for effective implementation of the Bank's strategy.

Internal Control Framework

The Board of Directors assisted by the Audit Committee is ultimately responsible for internal control in the Bank and for reviewing its effectiveness. Systems and procedures have been designed for effective and efficient operations, safeguarding assets against unauthorized use or disposition, maintaining proper accounting records, reliable financial information used within the business or for publications, compliance with applicable laws and regulations and for monitoring internal policies in relation to business performance. The systems in place were designed to manage, rather than to eliminate the risks of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses or fraud.

During its normal course of business, the Bank is exposed to credit, market and operational risks. However, various committees and procedures are in place to identify, measure, control and mitigate such risks.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and for ensuring there are appropriate controls in place to manage them.

The Bank's key internal control procedures include the following:

- Authority to manage the businesses of the Bank is delegated to the Managing Director within limits set by the Board of Directors. There are bank-wide policies, procedures and manuals in place covering financial controls, business processes, information security, credit policy and compliance with regulatory and legislative requirements. Additionally, delegated limits apply to all transactions and risk positions to ensure that exposures are controlled. The accountabilities of key managers are designed to ensure appropriate segregation of duties.
- In each of the key business areas, regular independent checks are made on operating performance and customer service to ensure that control procedures are being observed.

- Systems and procedures are in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational errors and fraud. Exposure to these risks throughout the Bank is monitored by each of the Operational Risk Steering Committee, the Asset and Liability Committee ("ALCO"), Market Risk Policy Committee (MRPC) and the Bank Senior Credit Committee. These exposures are also monitored by the Executive Committee.
- Risk assessments are also completed as part of all project appraisals, and risk is considered within the budget and business planning exercises, which are reviewed and approved by the Board of Directors.
- There is a system of financial reporting to the Board of Directors based on an annual plan, with quarterly reports of actual results, analysis of variances from plan, review of key performance indicators, and regular updates to forecasts. The Board of Directors and the Executive Committee review the annual plan and make periodical update for the forecasts based on the approved overall work strategy.
- Centralized functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes.
- Compliance in the Bank is controlled centrally under the Bank Compliance Officer. Divisional compliance officers are in place in all of the Bank's operating divisions.
- Comprehensive budgeting systems are in place with annual financial budgets prepared and approved by the Board of Directors. Actual results are monitored and there is regular consideration by the Board of Directors of progress compared with budgets and forecasts.
- The Internal Audit Division monitors compliance with Bank policies and procedures and the effectiveness of internal control structures across the Bank as a whole. The work of Internal Audit is focused on the areas of greatest risk. The Chief Internal Auditor reports to the Board of Directors and to the Audit Committee.

The Operational Risk Steering Committee meets regularly under the delegated authority of the Managing Director. This Committee ensures that the Bank's risk management framework is effective, and that a sound system of internal controls is in place, remains effective and is embedded throughout the organization. The Operational Risk Steering Committee is chaired by the Managing Director and includes as members certain senior executives.

Results of the Review of Internal Control Procedures Effectiveness

The Audit Committee reviews the effectiveness of the internal control system and the Board of Directors is informed of the related steps taken in the regard, in addition to an inclusive annual report submitted to the Board to assist it in its review of effectiveness of the internal control system. Following the Audit Committee review of the Bank's internal control procedure reports, most important of which is the Internal Audit reports, Risk Management Group's reports and the Internal Auditor's report for 2012, and after meetings with the heads of these parties discussing contents of the reports and performance of their sectors, the Committee conveys its conviction that the Bank's internal control cycle reflects the effectiveness of the internal control procedures in the Bank, and that it is in continued development to meet the increasing business needs and developments. The Committee sees no significant weakness in the Bank's business.

Regarding the accounting policies applied in the Bank, the Committee continually discusses them with the Chief Financial Officer and External Auditors periodically, and also discusses any changes in policies or local and International Standards.

Communication with Shareholders

Communication with shareholders is given a high priority. Extensive information about Bank's activities is provided in the Annual Report and Accounts and in the Interim Reports, which are published in the newspapers and are also posted on Bank's website. Further investor information is accessible on the Bank's website, www.anb.com.sa. There is a regular dialogue with institutional investors. Inquiries from individuals on matters relating to their shareholdings and the Bank's business are welcomed and are handled in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Bank.

Credit Rating

During 2012, the Bank was able to maintain its strong credit rating granted by prominent international credit rating agencies. The Bank's rating was as follows:

Standard & poor's	A
Moody's	A1
Fitch Ratings	A
Capital Intelligence	A+

Interests of Board Members, Senior Executives, their wives and minor children (shares in thousands)

1- Major Shareholders

Name	At beginning of year 1/1/2012		Change during the year		At end of year 31/12/2012	
	No. of shares	Ownership %	No. of shares	Change %	No. of shares	Ownership %
Arab Bank PLC	340,000	40.00	-	-	340,000	40.00
General Organization for Social Insurance (GOSI)	91,854	10.81	-	-	91,854	10.81
Rashed Abdul Rahman Al-Rashed and Sons Co.	84,733	9.97	-	-	84,733	9.97
Al-Jabr Trading Company	48,061	5.65	-	-	48,061	5.65

2- Board Members, Senior Executives, their wives and minor children

Name	At beginning of year 1/1/2012		Change during the year		At end of year 31/12/2012	
	Number of shares	Ownership %	Number of shares	Change %	Number of shares	Ownership %
Salah Rashed Al-Rashed	3,4	0.00	-	-	3,4	0.00
Rashid Saad Al-Rashid	9,992	1.18	-	-	9,992	1.18
Ahmed Abdullah Al-Akeil	199,3	0.02	2,6	1.31	201,9	0.02
Khaled M. Saad Albawardi	28,3	0.00	-	-	28,3	0.00
Hesham Abdullatif Al-Jabr	4,6	0.00	5,6	123.2	10,2	0.00
Nadir Hassan Alamri*	-	-	-	-	-	-
Abdel Hamid A. Shoman**	-	-	-	-	-	-
Nemeh Sabbagh**	-	-	-	-	-	-
Mohammed A.** Alghanamah	-	-	-	-	-	-
Robert Eid**	-	-	-	-	-	-
Asad Abdullah Hashem Alsadah	12,8	0.00	- 4,7	37.34	8,1	0.00

Note: Board members' shares include wives and minor children.

* Represents GOSI and do not own any shares in Arab National Bank. However, GOSI provides qualification shares for him.

** Board members representing Arab Bank PLC do not own any shares in Arab National Bank. However, Arab Bank PLC provides qualification shares for each of its representative members in the Board.

Directors' Report

(continued)

Statutory Payments

Statutory payments during the year were as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders for 2012	245
Income tax payable by the non Saudi shareholders for 2012	199
Withholding tax	40
General Organization of Social Insurance	48

Penalties and Regulatory Restrictions

The Bank was not subject to any material penalty or fine during 2012.

The penalties charged during 2012 were operating in nature and have no significant impact on the Bank. Below are the details of the penalties:

	SAR in thousands
Saudi Arabian Monetary Agency	372
Capital Market Authority	110
Riyadh Municipality	1,067

Human Resources

Total number of staff at the end of 2012 was 4,298 compared to 3,923 at the end of 2011. The Saudization ratio at the end of 2012 reached 90%.

Donations and Social Responsibilities

As dedicated, the Bank has a strong belief in its role in the society it is honored to serve. This approach is demonstrated by the Bank's continued assistance to charitable, educational, and other social institutions, where the bank granted donations totaling SAR 7,3 million during 2012.

Conflicts of Interests

The Bank did not have nor enter into any contract in which any member of the Board of Directors, the Managing Director, the Chief Financial Officer or any associates is or was having any material interest. Note (36) in the financial statements regarding related parties transactions shows amounts of facilities granted to some of the Board members. These facilities are governed by SAMA's instructions which stipulate that all facilities granted to non-banking parties should be fully guaranteed.

Accounting Standards

The Bank follows the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

External Auditors

In its meeting held on March 18, 2012, the Extraordinary General Assembly appointed Messrs. Ernst & Young and Deloitte & Touche Bakr Abulkhair & Co. as external auditors of the Bank's accounts for the year 2012.

Statement of Directors' Responsibilities in Relation to Financial Statements

The Board of Directors, to the best of its knowledge, confirms that:

- ANB has properly maintained its accounting records.
- The internal control system was properly prepared and effectively implemented.
- There is no doubt that ANB has the resources to continue in business.
- The Bank did not have nor enter into any contract in which any member of the Board of Directors, the Managing Director, the Chief Financial Officer or any associate is or was having any material interest except what is disclosed in note (36) regarding related party transactions.

Board of Directors
11 February 2013



Affluent Ladies Center



Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

At a time when the global economy continued to be confronted to significant challenges, the Saudi market benefited from strong fundamentals and robust government spending. Against this backdrop, the Saudi banking industry enjoyed a benign environment in 2012 which saw a welcome boost to the demand for credit.

In this context, ANB balance sheet and loan book grew to SAR 136.6 billion and SAR 86.3 billion respectively, up by 16.2% and by 18.5% on last year. Net income reached SAR 2.37 billion in 2012, up 9.2% compared to 2011.

Consumer Bank

Both products and earnings grew steadily at ANB during 2012, despite aggressive, price-based competition. The Consumer Bank was particularly active in the market, conducting sustained promotions and campaigns that have had a positive impact on both growth and the bank's brand.

ANB continued to pay attention to enhancing the bank's overall customer service levels. The new "Customer Experience" unit is now operational and will lead customer service throughout the bank. Its focus is on improving service levels at the various touch points so that ANB customers are always surprised and delighted by their experiences with the bank. Mystery Shopping and Customer Satisfaction Surveys are being carried out to ensure that bank staff are delivering the right level of service to each customer. ANB is committed to knowing how customers feel about their different interactions with the bank and to identifying areas for improvement.

Alternative channels remain the most cost-effective means of increasing ANB's availability and extending its reach to customers. Over 85% of all the bank's transactions are now carried out through non-branch channels. This year, the bank concentrated on improving availability throughout the ATM network. Specific task forces were established to deal with all issues regarding the ATM service promptly and efficiently. The call center continues to handle increased volumes and was rated highest among ANB's peer banks in the latest Mystery Shopping survey.

Given the rigorous competition in the market, customer retention has been a top priority during the year. ANB focused its efforts on greater cross-selling by simplifying the account opening process and offering bundled product offerings, such as the Salary Transfer Package. The extensive branch network, combined with the efforts of the Direct Sales Agents and telesales teams, enabled the bank to gain new customers and increase sales in a cost effective manner. Significant emphasis on customer segmentation continues and there has been an increased focus on the strategically important ladies and youth segments. The bank's strategic priority is to ensure that it sells the right products to the right customers via the right channels throughout their financial services lifecycle.

Corporate Bank

ANB's Corporate Bank caters to large corporates, offering them an innovative and growing range of commercial banking products and services, including lending and transactional banking products. The group's commitment to helping clients achieve their goals has enabled it to establish deeper and more meaningful customer relationships, and to add new, valued clients.

In line with the Bank's strategy, the Corporate Bank manages its business prudently and efficiently, thereby ensuring the strength, diversity and good quality of its portfolio. It takes a very balanced approach to writing new business. It also supports the development of major projects that are of national strategic importance to the Kingdom as well as the overall business objectives of its valued clients.

During the year, the Corporate Bank was actively involved in financing significant and nationally important projects, such as the iconic Madinah Airport Project. It also won mandates for leading roles in other large transactions. The group has grown consistently and continues to achieve sustainable portfolio and income growth.

In addition to offering a normal range of loan products, the group also provides equity bridge loans, guarantees, contract finance packages and ECA-covered loans. Overall, it continues to optimize performance by increasing the depth and breadth of its products and service offerings in the areas of cash management, trade finance, foreign exchange, Islamic banking and project and structured finance.

International Contracting

The International Contracting function, part of the Corporate Bank, continued to deliver high quality corporate banking products and services, as well as project-related financing facilities, to multi-national contractors working on projects in KSA. International Contracting meets the needs of contractors from Europe, the Far East, and North America by providing a seamless end-to-end solution to and from KSA.

Commercial Bank

ANB continues to hold a strong and profitable mid-market franchise. Its portfolio is characterized by a strong base with excellent credit quality. Despite a challenging environment, the segment sustained its business momentum and continued to achieve strong results. The focus has been on strengthening existing relationships and expanding mid-size customers through marketing and diversifying the range of banking products and services offered.

Commercial banking actively supports small businesses operating in the Kingdom with dedicated and specialized teams in each region. It has actively extended facilities under the 'Kafala' scheme. The unit is well placed to seize the opportunities offered in this expanding market segment.

As part of ANB's commitment to support governmental initiatives aimed at small enterprises in the Kingdom, the bank has plans to establish a more meaningful presence in this market segment. A new unit has recently been established as part of Commercial Banking to cater for the financial services needs of small enterprises. Through this unit, the bank plans to provide a range of financing, depositary, and transaction banking solutions that are tailored to the needs of the SME's, supported by a network of strategically located centers and staffed by dedicated and trained relationship managers.

Islamic Banking

The Islamic Banking Group develops and supports ANB and ANB Invest's Islamic banking services. It provides five key services to the business units:

Product development: It develops Shariaa-compliant products that provide financial solutions to all customer segments. In 2012, a range of finance, investment, and treasury products were successfully developed in accordance with Shariaa guidelines.

Business development: The group co-ordinates with all business segments in the bank and supports them on the identified market segments/individual opportunities for Islamic banking.

Shariaa affairs: It reviews the activities of business units and affiliates to ensure compliance with Shariaa board guidelines. The Shariaa board reviewed compliance reports and approved a number of new products during 2012.

Training: During 2012, the group trained 579 bank employees in Islamic banking and Shariaa-compliant products.

Branch conversion: 19 outlets were opened or converted from conventional branches to dedicated Islamic branches. In total, 144 branches, including 37 ladies' sections, representing 75% of ANB's retail branch network, are now dedicated to providing Shariaa-compliant products and services.

Treasury

Treasury continues to build and deploy leading innovations that extend the client-driven business and contribute to its proprietary activities.

It remains committed to a conservative approach to building assets in the investment portfolio, and the strength of this portfolio is the result of its quality and diversification. Prudent emphasis on franchise-based income and the proactive management of interest rates contributed positively to Treasury's performance in 2012.

London Branch

ANB London performs the important role of supporting the international interests of the bank's clientele as the sole unit of the bank operating outside the home base in the Kingdom. The branch was originally founded to cater to the private banking needs of ANB customers, and that role has increased over its years of operation.

Residential and commercial property in the UK continue to provide attractive investment opportunities, and the branch is uniquely placed to help clients with financing and ancillary property services. The branch offers its clients facilities and services in the corporate banking segment, including bonding and treasury services. The branch also undertakes selective trade finance and syndicated transactions.

Business Review

(continued)

Strategic Investments

Strategic Investments broadly cover four different lines of business: home finance, insurance, heavy equipment leasing and investment banking.

Saudi Home Loans (SHL)

Saudi Home Loans continued its strong performance in 2012. Both the profitability and the size of the loan book increased significantly, despite conservative lending practices. Leading the way in the developing mono-line home finance industry, SHL is well-positioned to capitalize on the strong and growing demand for home finance in the Kingdom. The 2013 outlook for SHL is positive, with continued strong growth predicted.

ANB/ AIG/MetLife Alico Insurance joint venture

The development of ANB's joint venture initiative, an insurance company which will serve the public in providing general and personal lines insurance products, continued in 2012. MetLife and AIG are the insurance partners. Regulatory requirements are nearly satisfied and infrastructure and operational set-ups are in their final phase. Through its 100% owned agency, which is currently being formed, ANB will be distributing insurance products to its customers soon after the insurance joint venture's planned IPO, which is scheduled for the first quarter of 2013.

Heavy Equipment Leasing (AHEL)

At AHEL, ANB's crane and heavy equipment leasing subsidiary, 2012 continued to be a year of fleet acquisition and infrastructure development. The company achieved profitability in its third full year of operations as the use of its crane fleet improved considerably. To take advantage of the demand for equipment in the Saudi Arabian market, the company will be increasing the size of its fleet during 2013 and 2014, as well as exploring the potential for diversifying into high-tech equipment.

ANB Invest

2012 was a good year for ANB Invest. The Saudi stock exchange, Tadawul, experienced rapid and unexpected growth in trading volumes, particularly during the first quarter of the year. ANB Invest quickly adjusted to these volumes and successfully maintained strong customer support and satisfaction during this period of volatility.

Asset management activities continued to earn external accolades. The Al Arabi Saudi Equity Fund was ranked number one in its category by Zawya, while the company's Al Arabi SAR money market fund was ranked third in its category. The company's largest fund, the Al Mubarak Trade Fund, was ranked fourth out of 23 funds in its category. These awards are part of a consistent track record that goes back years. Finally, the Al Mubarak Diyar Jeddah Real Estate Fund has registered a particularly good return for its investors since it was launched in April 2011.

Risk Management

ANB's Risk Management Group provides the bank with an independent and centralized risk management function. Its role is to maintain the balance between risk and return, in line with the bank's strategic objectives. The group is also responsible for implementing the Basel Accord's capital adequacy and other requirements. Its activities cover the following key areas:

Credit risk

- Establishes lending policies, approval authorization, single-party credit and portfolio concentration limits.
- Regularly assesses and reviews overall portfolio quality.
- Monitors and improves credit risk management techniques in order to implement the Basel II internal rating-based approaches.
- Performs independent risk reviews periodically to validate the effectiveness of the credit management system.

Market risk

- Identifies, measures, monitors and reports market and liquidity risk using a combination of rate sensitivities, gap analysis, value-at-risk and stress testing.
- Helps to manage the maturity and interest rate risk profile of the bank's balance sheet.
- Ensures that the bank's market and liquidity risk policy and limits are in line with international best practices.
- Enhances market and liquidity risk management policies and procedures to meet Basel-II/III requirements.

Operational risk

- Develops operational risk management strategies in accordance with corporate governance standards and industry best practices.
- Identifies, assesses, monitors, and reports operational risks across the bank's activities.
- Continues to work toward implementing the requirements of the Basel II advanced measurement approach.

Business continuity

- Develops business continuity policy and procedures for the bank in line with industry standards.
- Formulates plans to enable the bank to recover its critical operations quickly in the event of a disruption to normal business.
- Continuously tests the preparedness and robustness of the Business Continuity Centre through a series of exercises across all bank units.
- Promotes an awareness and understanding of business continuity to bank staff.

Credit administration and control

- Authorizes credit disbursement.
- Monitors limits and collateral coverage.
- Prepares and maintains custody of collateral and security documentation.
- Follows up on credit-related irregularities.

Information Security

- Develops information security policies and standards in line with regulatory and industry standards.
- Conducts security reviews, risk assessments and penetration testing.
- Manages and co-ordinates response to security incidents.
- Promotes information security awareness to ANB customers and staff.

eBanking Risk

- Manages e-Banking process and technology risks.
- Co-ordinates the implementation of e-Banking regulatory requirements.
- Monitors the effectiveness of e-Banking risk management processes.
- Assesses the impact of internal and external risk factors on e-Banking processes.
- Updates management on the status of e-Banking controls and compliance with regulatory requirements.

Credit Group

The Credit Group is responsible for assessing and reviewing the bank's credit risk, delivering credit services to clients and observing best risk management practices. It plays a pivotal role in safeguarding the sustainability of long-term profitability by balancing growth in the credit portfolio with excellent credit quality.

Compliance

A good corporate reputation is a company's most valuable and competitive asset. It is directly linked to uncompromising compliance with applicable laws, regulations and internal guidelines.

Compliance is thus a central pillar of our management and corporate culture and, at the same time, an integral part of all business processes. Compliance activity during the year focused on providing advice, training and support to the business in fully implementing SAMA rules and regulations and all other applicable regulations, This was complemented by a robust monitoring program and a regular reporting cycle to the Audit Committee thereby providing reliable objective assurance to the Board.

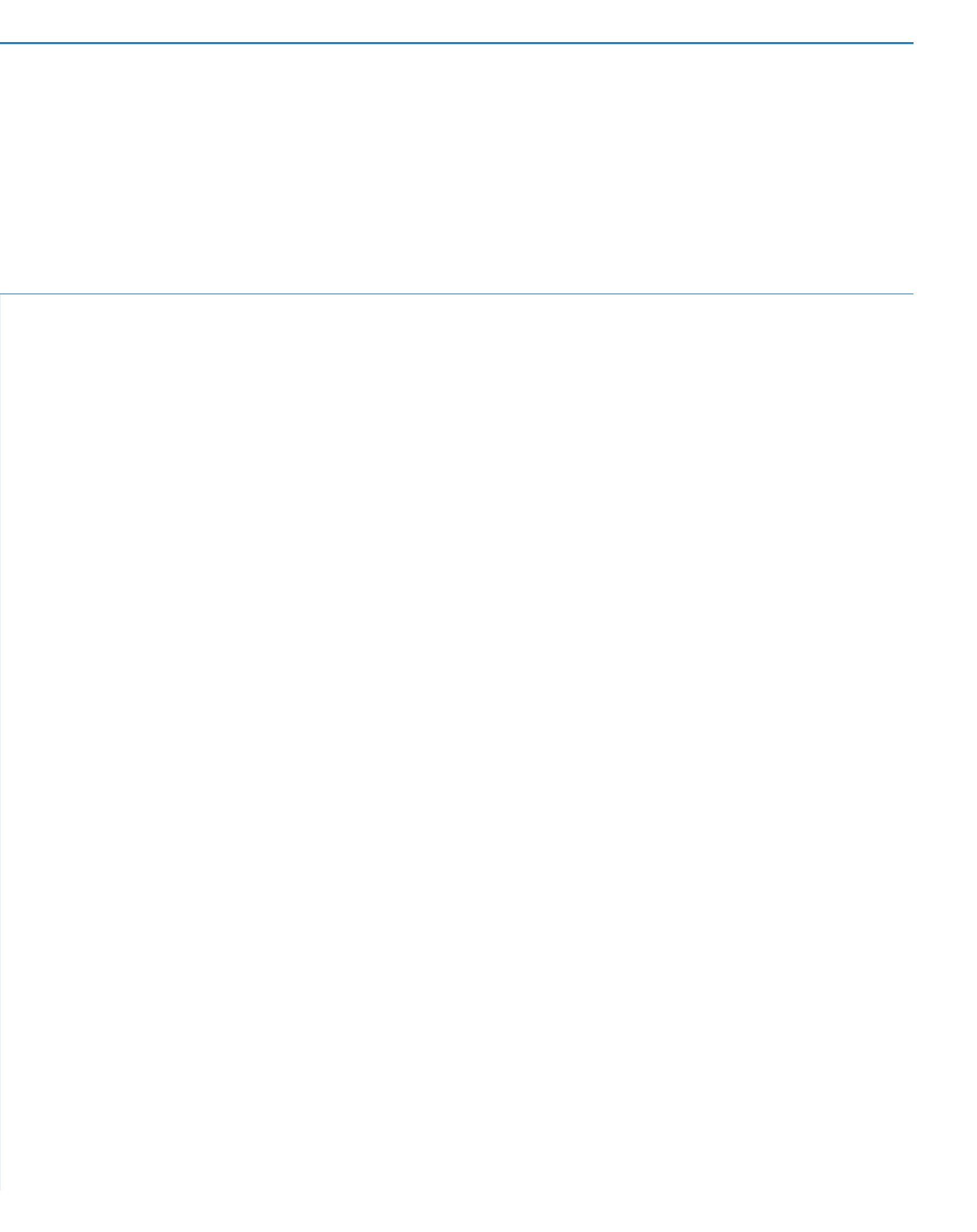
Information Technology

In order to meet the challenges of the business for the next five years, a robust IT infrastructure has been put in place. The launch of Message Broker (Middleware) in 2012 was an important step toward achieving a Services Oriented Architecture (SOA). The infrastructure will continually be improved to take advantage of future advances in technology and to help the bank meet business objectives.

ANB strengthened its business resumption capabilities by upgrading the existing disaster recovery datacenter to Tier 3 standard. In other developments, a new Telemoney application was launched, the previous mutual funds application was replaced with a new one, and prepaid card initiatives were launched in 2012.

Human Resources

Human Resources is the main resourcing, developing and retaining arm of the human capital for the Bank. In an increasingly competitive market for skilled professionals among both the private and public sectors, Human Resources, strives to attract Saudi graduates from leading local and foreign universities and enroll them in the bank's renowned Executive Trainees Management and Branch Network New Recruits Orientation Programs. In 2012, Human Resources has embarked upon a number of HR Initiatives to reward and retain its high potential employees, by offering challenging training and development programs, supported by mentoring and coaching programs.



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