

**Arab National Bank**  
Annual Report 2013



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.

## Contents

04	Chairman's Message	24	Consolidated Statement of Comprehensive Income
05	Financial Highlights	25	Consolidated Statement of Changes in Equity
06	Directors' Report	26	Consolidated Statement of Cash Flows
16	Business Review	27	Notes to the Consolidated Financial Statements
21	Auditors' Report	69	Basel III Pillar 3 Qualitative Disclosures
22	Consolidated Statement of Financial Position	75	Basel III Pillar 3 Quantitative Disclosures
23	Consolidated Income Statement	92	Branches



**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, 2013.

The Saudi Arabian economy continued to expand in 2013, with Government expenditure registering substantial increases in the areas of health, education and infrastructure. The economic growth and continued stability provide a propitious environment for the banking industry.

2013 witnessed another year of solid performance for Arab National Bank, with net income growing to SR 2,522 million, an increase of 6.4% compared to 2012. Total assets and customer deposits reached SR 137.9 billion and SR 106.4 billion, respectively, by the end of 2013. The loan book stood at SR 88.5 billion.

Effective corporate governance and prudent risk management remain fundamental to the success of Arab National Bank and in 2013 two additional Board committees were established, one overseeing Risk, the other Strategy. The Banking Consumer Protection Code has been adopted following a major staff training program and the principles of the code have been embedded into all interactions with customers. Corporate governance and risk management remain a key priority of the Board of Directors and the executive management.

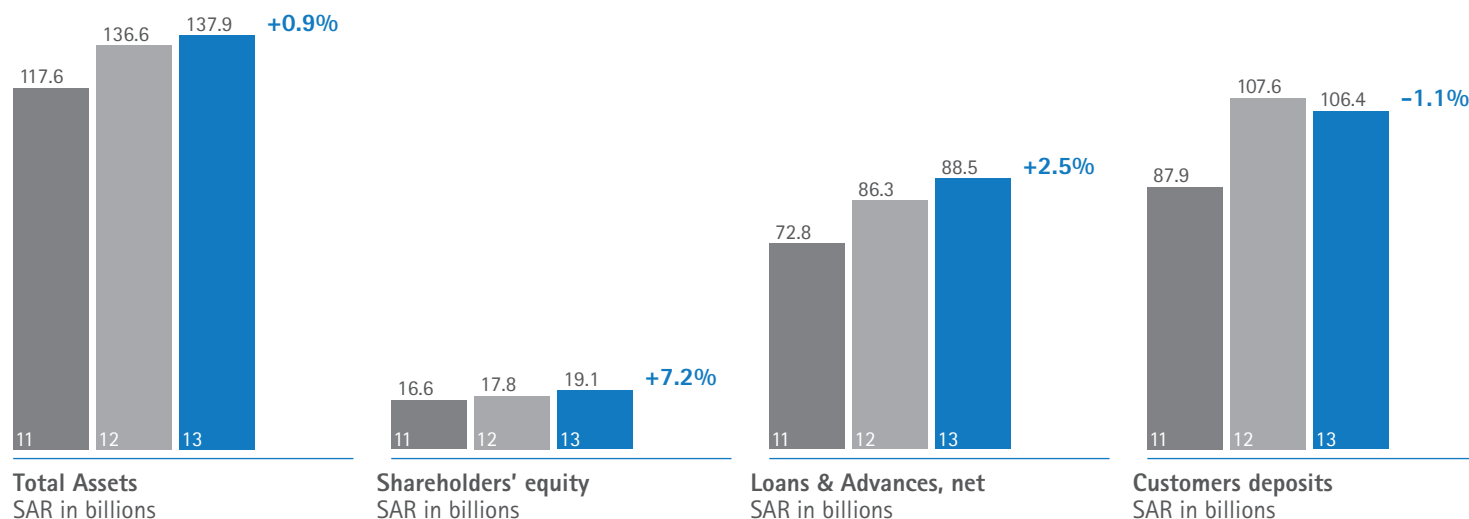
On behalf of the Board of Directors and myself, I want to recognize and express my sincere appreciation for the support and wise guidance of the Custodian of The Two Holy Mosques, the Crown Prince, the Minister of Finance and the Governor of the Saudi Arabian Monetary Agency.

On behalf of the Board, I am most grateful for the support of our valued customers and we look forward to retaining their trust in 2014. As ever, the Bank's success is built upon the commitment and efforts of management and staff and I have much pleasure in recognizing their role in the continued growth and success of Arab National Bank.

A handwritten signature in black ink, appearing to be 'Salah R. Al-Rashed'.

Salah R. Al-Rashed  
Chairman

## Financial Highlights



	Saudi Riyals in Millions				
	2013	2012	2011	2010	2009
Net Commission income	3,375	3,260	3,181	3,158	3,456
Net Income Before Provisions for credit losses	3,149	2,893	2,789	2,875	2,897
Net Income	2,522	2,371	2,171	1,911	2,370
Expense to Revenue Ratio	39.6%	40.5%	39.4%	38.6%	36%
Return on Assets (ROA)	1.8%	1.9%	1.9%	1.7%	2.0%
Return on Equity (ROE)	13.7%	13.8%	13.6%	12.9%	17.5%
Investments	28,248	24,323	26,082	32,841	23,261
Loans and Advances, net	88,456	86,329	72,844	66,203	66,811
Total Assets	137,935	136,639	117,574	116,035	110,297
Customers Deposits	106,373	107,560	87,859	84,199	82,680
Total Equity	19,080	17,804	16,624	15,291	14,369

A<sup>+</sup>

Capital Intelligence

A

Fitch Ratings

A<sup>1</sup>

Moody's

A

Standard & Poor's



# Directors' Report

## To: The Shareholders of Arab National Bank

The Board of Directors (the Board) is pleased to submit Arab National Bank's Annual Report for the financial year ended December 31, 2013.

### Introduction

Arab National Bank (the Bank), a Saudi Joint Stock Company, was incorporated pursuant to Royal Decree No. R/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank's Head Office is located in Riyadh and it operates through 150 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 2013 financial year amounted to SAR 2,522 million compared to SAR 2,371 million in 2012, an increase of 6.4%. Special commission income increased 3.5% to SAR 3,375 million compared to SAR 3,260 million in the previous year, while fees and commission income increased by 15% to SAR 1,053 million from SAR 915 in 2012. Accordingly, total operating income increased 7.4% from SAR 4,757 million in 2012 to SAR 5,110 million in the current financial year.

Operating expenses before provisions amounted to SAR 1,994 million compared to SAR 1,892 million in 2012, representing an increase of 5.4%. This increase was mainly due to growth in the Bank's business activities, the continued transformation and expansion of its branch network to improve customer experience and the effect of annual inflation.

The Bank continued to adopt conservative risk management policies to consolidate its provision coverage. Provision charge for credit losses amounted to SAR 627 million compared to SAR 522 million in 2012 resulting in a non-performing loans coverage ratio of 205% as at December 31, 2013.

The Bank's loan portfolio amounted to SAR 88,456 million compared to SAR 86,329 million in 2012 and its investment portfolio increased to SAR 28,248 million from SAR 24,323 million in 2012, an increase of 2.5% and 16.1% respectively.

Total assets and customer deposits as at December 31, 2013 amounted to SAR 137,935 million and SAR 106,373 million respectively.

Total equity amounted to SAR 19,080 million compared to SAR 17,804 million in 2012, an increase of 7.2%.

### Financial Highlights

	SAR millions				
	2013	2012	2011	2010	2009
Loans and advances, net	88,456	86,329	72,844	66,203	66,811
Investments, net	28,248	24,323	26,082	32,841	23,261
Customer deposits	106,373	107,560	87,859	84,199	82,680
Shareholders' Equity	19,080	17,804	16,624	15,291	14,369
Total assets	137,935	136,639	117,574	116,035	110,297
Total liabilities	118,747	118,730	100,845	100,638	95,819
Total operating income	5,110	4,757	4,541	4,504	4,493
Total operating expenses	2,621	2,414	2,393	2,609	2,128
Net Income	2,522	2,371	2,171	1,911	2,370

### Geographical Analysis of Revenues

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

	SAR '000
Central Region*	3,276,470
Western Region	1,086,464
Eastern Region	746,611
Total	5,109,545

\* Includes London branch revenues (not disclosed separately due to it being immaterial to the Bank as a whole).

### Affiliates and Associates

#### Arab National Bank Investment Company (ANBI)

The Bank has established a wholly owned subsidiary "ANB Invest", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on Shawal 26, 1428 (corresponding to November 7, 2007), to take over 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 (CMA). The subsidiary's authorized and issued capital is SAR 400 million (40 million shares) and it commenced operations on Muharram 3, 1429H (corresponding to January 12, 2008).

## Board of Directors



**Back Row:** Nader Hassan Al Amri/ Ahmed A. Al-Akeil/ Dr. Robert Eid (Managing Director)/ Riyadh Burhan Tahir Kamal/ Hesham Abdulatif Al-Jabr  
**Front Row:** Mohammed A. Alghanamah/ Khaled M. Albawardi/ Salah R. Al-Rashed (Chairman)/ Rashid Saad Al-Rashid/ Nemeh Sabbagh

### Shareholders

Saudi Shareholders 60%  
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 - Chairman  
Nemeh Sabbagh  
Hesham Abdullatif Al-Jabr  
Nadir Hassan Alamri  
Dr. Robert Eid



## Directors' Report

(continued)

### 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 on 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 representing 30 million shares with a nominal value of SAR 10 per share. The company is engaged in the leasing of heavy equipment and operates in compliance with Sharia principals.

### Saudi Home Loan Company (SHL)

A 40% owned associate incorporated in the Kingdom of Saudi Arabia as a Saudi closed joint stock company under commercial registration No. 102030072425. The company's authorized capital is SAR 2,000 million and its issued capital is SAR 800 million representing 80 million shares with a nominal value of SAR 10 per share. SHL is a specialized Islamic home and real estate finance company and as a result all its products and services are fully Sharia compliant. The company commenced its business in the last quarter of 2007 and is equity accounted.

### MetLife – AIG – ANB Cooperative Insurance Company

During 2012, the Bank participated in setting up a cooperative insurance company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010391438. The company's authorized and issued capital is SAR 175 million representing 17.5 million shares with a nominal value of SAR 10 per share. The Bank owns 5.2 million shares (30%) at a nominal value of SAR 10 per share.

In accordance with cooperative insurance company Regulations, its executive bylaws and the laws effective in the Kingdom of Saudi Arabia, the company will act as an agent and perform activities such as representation, correspondence and brokerage. The company will commence operations after obtaining approval from the concerned regulatory authorities.

### ANB Insurance Agency

A wholly owned subsidiary incorporated in the Kingdom of Saudi Arabia during 2013 as a limited liability company under commercial registration No. 1010396423. It is licensed by the Saudi Arabian Monetary Agency (SAMA) under license No. 341000077525 to perform insurance agent activities. The company's authorized and issued capital amounts to SAR 500,000 representing 50,000 shares at a nominal value of SAR 10 per share. The agency will start operations after obtaining approvals from the concerned regulatory authorities.

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

### Dividend Distribution Policy

the rules governing the Bank's dividend distribution are as follows:

1. In accordance with the requirements of SAMA, a minimum of 25% of the Bank's annual net income is required to be transferred to a statutory reserve until such reserve equals the Bank's paid up capital.
2. The Board periodically reviews and analyzes the Bank's financial position, capital adequacy and growth projections. Accordingly, it proposes to the General Assembly whether to distribute a dividend or not.

3. If the General Assembly decides to distribute a dividend, it will be distributed equally among shareholders in proportion to their shares held at the eligibility date as per the dividend announcement.
4. The Board may also decide to distribute an 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 proposed a dividend distribution as follows:

	SAR '000
2013 net income	2,522,495
Retained earnings from previous years	1,579,657
Total	4,102,152
Distributed as follows:	
Transferred to statutory reserve	640,000
Zakat	415,028
Dividend distribution (SAR 0.5 per share)	425,000
Retained earnings for 2013	2,622,124

### Future Plans

The Bank is in the process of executing the following future plans and strategic initiatives:

- Continuing the branch network expansion and transformation.
- Continuing to upgrade the Bank's information and communication systems.
- Introducing additional specialized centres to serve 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 its funding, liquidity, currency and commission rate risks.

#### Investment and brokerage services

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

#### Other

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

Transactions between business segments are reported in accordance with the Bank's transfer pricing methodology. Segment assets and liabilities mainly comprise operating assets and liabilities.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London, UK. Neither the branch's total assets, liabilities, commitments nor its results of operations are material to the Bank's overall consolidated financial statements and are as a result not disclosed separately.

The Bank's total assets and liabilities as at December 31, 2013 and its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

	SAR '000					
2013	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	32,028,809	60,352,931	42,676,008	77,536	2,800,140	137,935,424
Total liabilities	57,363,915	51,321,417	9,383,684	32,063	645,931	118,747,010
Fee and commission income, net	294,241	572,717	19,292	105,568	61,580	1,053,398
Total operating income	2,093,443	1,781,241	972,615	112,430	149,816	5,109,545
Total operating expenses	1,543,975	864,638	90,053	74,921	47,302	2,620,889
Share in earnings of an associate	-	-	-	-	36,487	36,487
Gain attributed to non-controlling interest	-	-	-	-	(2,648)	(2,648)
Net income attributed to equity holders of the Bank	549,468	916,603	882,562	37,509	136,353	2,522,495
Impairment charges for credit losses, net	213,303	413,685	-	-	-	626,988
Investment in associates	-	-	-	-	466,533	466,533
Depreciation and amortization	136,611	2,799	3,554	6,121	38,739	187,824

#### Risks encountered or potentially could be encountered by the Bank Risk Management

The Bank's Risk Management Group (RMG) provides an independent and centralized risk management function, to ensure the best balance between risk and return is achieved in line with the Bank's strategic objectives. The major risks that could be encountered by the Bank are 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 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 control processes, people and systems or external events. Operational risk includes legal risks such as exposure to fines and penalties, punitive damages resulting from supervisory actions or private settlements.

#### Corporate Governance in the Kingdom of Saudi Arabia

The Bank implemented the Corporate Governance Guidelines issued by CMA in the Kingdom of Saudi Arabia, with the exception of the following:

Article	Requirement	Reasons for Non-Compliance
Item (d) of Article 6	Investors who are judicial persons and who act on behalf of others – e.g. investment funds – shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of fundamental rights in relation to their investment.	The Bank is not permitted under any capacity to oblige judicial investors that act on behalf of others to disclose their voting rights.

# Directors' Report

(continued)

## Debt securities in issue

During 2006 the Bank issued USD 500 million of 10-year subordinated floating rate notes under its USD 850 million Euro Medium Term Notes program. The notes originally had a special commission rate of Libor plus 83 bps, are non-convertible, unsecured, listed on the London stock exchange and are callable after 5 years from issuance.

During 2009, USD 50 million was purchased on the secondary market and retired. Effective October 31, 2011 and based on the step-up condition, the commission rate was adjusted to Libor plus 133 bps.

## 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 the Executive Committee comprised mainly of board members.

The Board consists of ten members. Six represent Saudi shareholders and are elected at the Shareholders General Assembly Meeting for a term of three years. The remaining four members are appointed by Arab Bank PLC. All directors can be reappointed.

The Board has a clearly documented schedule of meetings and an agenda of key discussion points that include the agreement of strategy, budgets, major capital expenditures, policies covering treasury, credit and other business units, 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 at the Bank's expense where needed to discharge their responsibilities.

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

Board members at December 31, 2013 appointed by Arab Bank are Nemeh Sabbagh, Mohammed A. Alghanamah, Dr. Robert Eid (Managing Director) and Riyadh Burhan Tahir Kamal (appointed on December 10, 2013).

As at December 31, 2013 the Board consisted 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.	Nemeh Sabbagh	Board member (non-executive)
9.	Mohammed A. Alghanamah	Board member (non-executive)
10.	Riyad Burhan Tahir Kamal	Board member (non-executive)

Four regular Board meetings were held during 2013 and were attended as follows:

Date	Attendance record	No. of attendees
<b>March 18, 2013</b>	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, Nemeh Sabbagh and Mohammed A. Alghanamah.	9
<b>June 9, 2013</b>	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Khaled M. Saad Albawardi, Nemeh Sabbagh and Mohammed A. Alghanamah.	9
<b>September 15, 2013</b>	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, Nemeh Sabbagh and Mohammed A. Alghanamah.	9
<b>December 15, 2013</b>	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, Nemeh Sabbagh and Mohammed A. Alghanamah.	9

**Directors' membership in other joint stock companies' boards**

Following is a list of Directors who were board members in other joint stock companies as of December 31, 2013:

Director	Joint stock company
Salah Rashed Al-Rashed	<ul style="list-style-type: none"> <li>- White Cement Co.</li> <li>- Tech Invest Co.</li> <li>- Saudi Services for Electro Mechanic Works Co</li> <li>- Golden Chicken Farms Co. for Agricultural &amp; Animal Production</li> </ul>
Rashid Saad Al-Rashid	<ul style="list-style-type: none"> <li>- Bayan Realty Co.</li> <li>- Watan Investment Co.</li> <li>- Al-Ahsana Amusement &amp; Tourism Co. (AHSANA)</li> <li>- Saudi Services for Electro Mechanic Works Co</li> <li>- Golden Chicken Farms Co. for Agricultural &amp; Animal Production</li> </ul>
Ahmed Abdullah Al-Akiel	<ul style="list-style-type: none"> <li>- Southern Province Cement Co.</li> <li>- Sanad Cooperative Insurance Co.</li> <li>- Aldrees for Petroleum Services and Transportation</li> <li>- Saudi Electricity Company</li> <li>- Alyamama Investment &amp; Development Co.</li> </ul>
Khaled M. Saad Albawardi	<ul style="list-style-type: none"> <li>- Arab Paper Manufacturing Co.</li> <li>- Basic Chemical Industries Co. (BCI)</li> </ul>
Hesham Abdullatif Al-Jabr	<ul style="list-style-type: none"> <li>- Nattily Company for Furniture and Internal Design</li> <li>- Al Jabr Holding Company</li> </ul>
Nadir Hassan Alamri	<ul style="list-style-type: none"> <li>- Saudi Home Loans</li> </ul>
Nemeh Sabbagh	<ul style="list-style-type: none"> <li>- Turkland Bank – Istanbul</li> <li>- Europe Arab Bank – London</li> <li>- Jordan Loan Guarantee – Amman</li> </ul>
Mohammed A. Alghanamah	<ul style="list-style-type: none"> <li>- Al Arabi Investment Group Company – Amman</li> <li>- Arab National Leasing Company – Amman</li> </ul>
Robert Eid	<ul style="list-style-type: none"> <li>- Saudi Home Loans</li> <li>- MetLife – AIG – ANB Cooperative Insurance Company</li> </ul>
Riyad Burhan Tahir Kamal	<ul style="list-style-type: none"> <li>- Arab Bank – Amman/Jordan</li> <li>- Arab Insurance Co. – Beirut/Lebanon</li> <li>- Oman Arab Bank – Oman</li> <li>- Arabtec Holding Co. – Dubai</li> <li>- Gulf Capital – Abu Dhabi</li> <li>- Rotana Hotels – Abu Dhabi</li> </ul>

**Principal Board Committees**

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

**Executive Committee**

The Executive Committee consists 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 to it by the Board. During 2013, the executive committee held 19 meetings. This Committee is responsible for implementing Bank policy, monitoring business performance, managing risks, ensuring the effectiveness of internal controls and approving large capital expenditure projects.

During 2013 the executive committee comprised of 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, the Nomination and Remuneration Committee was formed. It is comprised of three non-executive Board members: Khaled M. Saad Albawardi (Chairman), Salah Rashed Al-Rashed and Ahmed Abdullah Al-Akiel. The committee has the authority to review and recommend to the Board for its approval amendments to the Bank's compensation policy and practices. 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 committee's functions also include nomination to Board membership, review of the Board's membership structure, determine strengths and weaknesses therein and propose remedies in line with the Bank's interests. The committee held 5 meetings in 2013.

At its meeting of March 27, 2011, the Extra Ordinary General Assembly endorsed the selection rules of the Nomination and Remuneration Committee's members, the committee's method of work and the remuneration of the committee's members as advised by the Board.

Annual remuneration and compensation of non-executive and executive Board members were SAR 2,460 thousand and SAR 300 thousand respectively. Attendance allowances to the same were SAR 384 thousand and SAR 72 thousand respectively. Expense allowances to non-executive Board members including travel and accommodation expenses were SAR 437 thousand. Salaries paid during the year to senior executives including CEO and CFO was SAR 16.8 million. Their allowances and compensation amounted to SAR 3.0 million and their variable compensation SAR 15.6 million while their incentive plans amounted to SAR 1.8 million. Remuneration paid to members of audit committee amounted to SAR 360 thousand and their attendance allowances to SAR 72 thousand.

# Directors' Report

(continued)

## Audit Committee

The Audit Committee assists the Board in reviewing the effectiveness of the Bank's internal control processes and approves the Bank's accounting policies and financial statements. The Audit Committee also approves the annual review plans of the Internal Audit Division and the Compliance Department, assesses the results of their work and ensures the existence of control processes that ensure 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 audit plans and the results of the work performed. The Bank complies with the Rules and Guidelines for Banks in Saudi Arabia for Organizing Audit Committees issued by SAMA.

The Committee is comprised of an independent board member and two independent non-board members. The Committee met eight times during 2013. The committee meets regularly with the Managing Director, the Chief Financial Officer, the Head of Internal Audit, Head of Compliance Department, Head of RMG, External Auditors and other members of the management team as may be required for discussions and deliberations.

During 2013, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman), Mr. Saleh A Al- Ismail and Mr. Mohammed A. Alomran.

## Strategy Committee

The Board formed a strategy committee of five members as follows:

- Robert Eid
- Rashid Saad Al-Rashid (Chairman)
- Nemeh Sabbagh
- Hesham Abdullatif Al-Jabr
- Nadir Hassan Alamri

The Strategy Committee assists the Board with strategic matters in general and with the monitoring of the Strategy Plan implementation 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.

During 2013, the Strategy Committee held one meeting on March 18, 2013.

## Risk Committee

The Board formed a risk committee of five members as follows:

- Salah Rashed Al-Rashed
- Ahmed Abdullah Al-Akeil
- Khaled M. Saad Albawardi
- Nadir Hassan Alamri
- Mohammed A. Alghanamah (Chairman)

Roles and responsibilities of the committee are as follows:

- Developing a risk strategy for the Bank and to set its overall risk appetite.
- Ensuring that the Bank has an effective risk management framework for the identification, measurement, monitoring and control of the various risks to which the Bank are exposed, e.g. credit, market, liquidity, and operational.
- Ensuring that the Bank has well-defined risk management policies covering all key risks inherent to its activities.
- Requiring management to ensure that the staff involved in risk management possesses sound expertise and knowledge to discharge their responsibilities.
- Ensuring that the Bank's credit and market exposures are maintained at prudent levels.
- During 2013, the Risk Committee held one meeting on December 3, 2013.

## Internal Control Framework

The Board assisted by the Audit Committee and the Risk Committee is ultimately responsible for internal control in the Bank and for reviewing its effectiveness. Systems and procedures have been designed to operate effectively and efficiently to safeguard assets against unauthorized use or disposal, maintain proper accounting records, report reliable financial information for use internally in the Bank and for external publications, compliance with applicable laws and regulations and for monitoring internal policies related to business performance. The processes 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 Bank is delegated to the Managing Director within limits set by the Board. There are bank-wide policy and procedure 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 performed 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 major risks including credit, changes in the market prices of financial instruments, liquidity, operational errors and fraud. Exposure to these risks is respectively monitored by the Bank Senior Credit Committee,



Market Risk Policy Committee (MRPC), the Asset, Liability Committee ("ALCO") and the Operational Risk Steering Committee. These exposures are also monitored by the Executive Committee.

- Risk assessments are completed as part of all project appraisals. Risk is also considered within the budget and business planning processes and are reviewed and approved by the Board.
- There is a system of financial reporting to the Board based on an annual plan, with quarterly reports of actual results, analysis of variances with budgets, review of key performance indicators and regular updates of forecasts. The Board and the Executive Committee review the annual plan and make periodical updates to 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 by the Bank's 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. Actual results are monitored and there is regular consideration by the Board of progress compared with budgets and forecasts.
- The Internal Audit Division monitors compliance with the Bank's 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 and 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 certain senior executives as members.

#### Results of the Review of Internal Control Procedures' Effectiveness

The Audit Committee reviews the effectiveness of the internal control system and informs the Board of the steps taken in this regard. It also submits an inclusive annual report to the Board to assist it in its review of the effectiveness of the internal control system. Following the Audit Committee's review of the Bank's internal control procedure reports, most important of which is the Internal Audit and RMG reports and after meetings with the respective heads of these departments to discuss the contents of their reports and the performance of their sectors, the Committee conveys its conclusion to the Board whether the Bank's internal control cycle reflects the effectiveness of its internal control procedures and that it is in continued development to meet changing

business needs and developments. The Committee is not aware of control gaps or significant weakness in the Bank's internal control systems that require disclosure.

Regarding the accounting policies applied in the Bank, the Committee continually discusses the impact of instructions issued by SAMA and other regulatory authorities and any changes in the Bank's accounting policies or local and International Financial Reporting Standards (IFRS) with the Bank officials and periodically with the External Auditors to ensure its implementation in compliance with said instructions/changes.

#### Communication with Shareholders

Communication with shareholders is given a high priority. Extensive information about the 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 the Bank's website. Further investor information is also accessible on the Bank's website, [www.anb.com.sa](http://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 2013, 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+

# Directors' Report

(continued)

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

### 1- Major Shareholders

Name	At beginning of year January 1, 2013		Change during the year		At end of year December 31, 2013	
	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	4,037	4.40	95,891	11.28
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 January 1, 2013		change during the year		At end of year December 31, 2013	
	No. of shares	Ownership %	No. of shares	Change %	No. 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	201,9	0.02	-	-	201,9	0.02
Khaled M. Saad Albawardi	28,3	0.00	-	-	28,3	0.00
Hesham Abdullatif Al-Jabr	10,2	0.00	-	-	10,2	0.00
Nadir Hassan Alamri*	-	-	-	-	-	-
Nemeh Sabbagh**	-	-	-	-	-	-
Mohammed A.** Alghanamah	-	-	-	-	-	-
Robert Eid**	-	-	-	-	-	-
Riyad Burhan Tahir Kamal**	-	-	-	-	-	-
Asad Abdullah Hashem Alsadah	8,1	0.00	- 4,6	56.72	3,5	0.00

Note: Board member shares include those held by wives and minor children.

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

\*\* 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.

### Assignment of interests by ANB Directors / Executives / Shareholders

The Bank is not aware of any arrangements or agreements whereby directors, senior executives or shareholders have assigned interests or rights to dividends or any salary or compensation.

### Statutory Payments

Statutory payments during the year were as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders	257
Income tax payable by the non-Saudi shareholders	208
Withholding tax	36
GOSI	52

### Penalties and Regulatory Restrictions

The Bank was not subject to any material penalties or fines during 2013.

Some immaterial penalties were charged during 2013 as a result of operational activities. These penalties were imposed by SAMA and amounted to SAR 1.2 million.

### Human Resources

Total number of staff at the end of 2013 was 4,264 compared to 4,298 at the end of 2012. The Saudization ratio at the end of 2013 was 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 it granted donations totaling SAR 4.9 million during 2013.

### Conflicts of Interests

The Bank did not nor has it entered into any contract in which any member of the Board, the Managing Director, the Chief Financial Officer or any of their associates has or had any material interest. Note (36) of the financial statements regarding related party transactions discloses facilities granted to some of the Board members. These facilities are governed by SAMA's and are fully guaranteed as per their instructions which stipulate that all facilities granted to non-banking parties should be fully guaranteed.

### Accounting Standards

The Bank prepares its consolidated financial statements in accordance with Accounting Standards for Financial Institutions promulgated by SAMA, IFRS and to comply with the Banking Control Law and Regulations for Companies in the Kingdom of Saudi Arabia.

### External Auditors

In its meeting held on March 18, 2013, 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 2013.

### Statement of Directors' Responsibilities in Relation to Financial Statements

The Board, 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 did it enter into any contract in which any member of the Board, the Managing Director, the Chief Financial Officer or any of their associates has or had any material interest except as disclosed in note (36) regarding related party transactions.

Board of Directors  
11 February 2014



A perspective view for the new ANB headquarter in Riyadh.



## Business Review



**Dr. Robert Eid**  
Managing Director & Chief Executive Officer

The Saudi Arabian economy recorded a year of solid growth in 2013, supported by an expansive government spending policy, especially in the vital sectors of infrastructure, health and education.

Against the backdrop of the benign economic environment, ANB recorded a solid performance in 2013, with net income growing by 6.4% to SR 2,522 million.

### Consumer Bank

The progress in acquiring consumer assets continued throughout 2013 at a consistent rate and customer deposits grew as several new branch locations started to generate profitable businesses.

With the intention of increasing customer service and loyalty and attracting new customers, ANB launched its new mobile banking service, ANB Mobile. Sign-ups have been growing at a steady pace and customer satisfaction ratings scored amongst the highest in the market. ANB Mobile will play a major role in decreasing the costs of servicing customers, as mobile banking is considered to be the lowest priced service of all bank channels.

ATMs are another strategically important cost effective channel for ANB. The Bank is implementing a major expansion plan to complete by mid-2015 for the ATM network. Over 150 new sites were installed in 2013 to serve both ANB and non-bank customers. The ATM team has strived to improve service availability to all customers and achieved compliance with the strict monthly Service Level Agreement, mandated by SAMA.

The Consumer Bank initiated a number of promotion campaigns this year. The Ferrari co-branded credit card was launched in the middle of the year, which is an exclusive arrangement between ANB and Ferrari to market this unique product in Saudi Arabia. ANB launched the credit card loyalty program late in the year which is having a positive impact on customer satisfaction. ANB credit cards are now also EMV (Europay MasterCard Visa) compliant.

The Bank continued to enhance its overall customer service levels. The "Customer Experience" unit successfully implemented the newly-enforced Banking Consumer Protection Code. Extensive staff training was provided to ensure that customer protection becomes an integral part of any staff interaction with customers. Mystery Shopping continued throughout 2013 and ensured that Bank staff consistently deliver a high standard of service to each customer.

Given the rigorous competition in the market, customer retention continues to be a top priority for the Consumer Bank. Significant efforts have been exerted to retain customers by ensuring high levels of service. Affinity group marketing is helping ANB break-through in a very competitive and commoditized retail banking market. Strategically important growth segments, such as Ladies and Youth, have segment professionals working on research-based products and services in order to achieve high customer appeal.

The Bank's ethos of the "Trilogy" continues in that it will sell the right products to the right customer segments via the right channels throughout their financial services cycle.

### Private Bank

ANB's Private Bank provides its High Net Worth clients with elite services around the clock through a team of dedicated and highly skilled Relationship Managers.

It continues to offer its clients upscale services and provide them with customized investment ideas and solutions in coordination with the Treasury and Asset Management functions.

Products have continued to grow progressively led by the widening in the HNW client base and the improvement of cross sell levels.

### London Branch

For more than 20 years, the London Branch has been proud to be the only Branch outside Saudi Arabia. It was founded to support the international requirements of the Bank's customers, and provides a product mix that includes Private Banking, Trade Finance, Corporate products and Treasury Services.

The Branch has been actively assisting Saudi citizens that wish to take advantage of the recovery in the U.K. real estate market, which covers both residential and commercial opportunities, with a particular focus on the desirable areas of Central London.

### Corporate Bank

ANB's Corporate Bank adopts a relationship-focused approach to business, providing its expertise with a superior service to its top-tier corporate clients.

The Corporate Bank has been growing consistently over the past decade in line with market changes and customer expectations. Given the conservative nature of the Bank's strategy, the Corporate Bank portfolio and businesses are managed prudently. There is an emphasis to support the development of major projects that have a strategic importance to the Kingdom.

The success of the Corporate Bank has been fulfilled by the foundation of a wide customer-base and the offering of a full suite of commercial banking products and services. It has optimized its performance by enhancing the product offerings, particularly in the areas of cash management, trade finance, project finance and Islamic banking.

### Commercial Bank

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

### SME

In line with the Government's initiatives to support the growth of SMEs in the Kingdom, a key element of the Bank's strategic plan is to have a meaningful presence in this segment. The Bank continues to pursue this plan with the active support of the Kafalah scheme.

During the year, the Bank expanded its market presence and range of services. Dedicated SME Centers were opened in Riyadh, Dammam and Jeddah to serve small and medium enterprises. These centers are managed by a specialized team offering a range of customized solutions which cover financing, banking transactions and the account servicing needs of customers. By the end of 2013, the Bank will have SME Centers in 5 cities across the Kingdom with further additions to the network planned for 2014 and beyond.

### Islamic Banking

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

**Product development:** It develops Shariaa-compliant products that provide financial solutions to customers.

**Business development:** It coordinates with all business segments in the Bank and supports them with 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. During 2013, the Shariaa board reviewed compliance reports and approved a number of new products and transactions.

**Training:** During 2013, the group trained 485 bank employees in Islamic banking and Shariaa-compliant products.

**Branch conversion:** 5 outlets were opened or converted from conventional branches to dedicated Islamic branches. In total, 149 branches, including 39 ladies sections, representing 77% of ANB's retail branch network, are now dedicated to provide Shariaa-compliant products and services.

### Treasury

Treasury has benefited from the continuous efforts of building a strong and sophisticated platform for offering its products and services.

Considerable success in trading and cross-selling activities was achieved in 2013. Treasury's strong performance resulted from pursuing a conservative asset allocation strategy for its investment portfolio, coupled with pro-active interest rate management.

### 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 2013. Leading the way in the developing home finance industry, SHL is well-positioned to capitalize on the strong and growing demand for housing loans in the Kingdom. The 2014 outlook for SHL is positive, with continued strong growth predicted against a backdrop of formal regulation by SAMA.



## Business Review

(continued)

### ANB/ AIG/ MetLife Alico Insurance joint venture

ANB's joint venture initiative in insurance completed its Initial Public Offering (IPO) in 2013 and will be providing general and personal lines insurance products, commencing in 2014. The operational set up has been achieved along with MetLife and AIG, the insurance partners. ANB will be distributing insurance products to its customers through its 100% owned Insurance Agency.

### Heavy Equipment Leasing (AHEL)

AHEL, ANB's crane and heavy equipment leasing subsidiary, continued to grow the fleet and focus on optimizing operational performance throughout 2013.

The company achieved profitability in its fourth year of operations as fleet size and utilization rate continued to improve.

### ANB Invest

The Company started 2013 with the successful launch of the initial public offering of Northern Region Cement Company ("NRCC"), a transaction worth SR900 million. This transaction proved to be very beneficial to investors. The IPO price was set at SR10 per share, and trading was at SR23 per share at the time of writing. ANB Invest acted as lead advisor and sole underwriter to NRCC.

Shares on the Saudi Stock Exchange, Tadawul, increased in value throughout 2013 giving investors significant returns. Despite these good returns, trading volumes were down by 32.1% relative to 2012. The brokerage revenues were affected, but the Company's prudent management of its cost structure allowed it to deliver good profits.

Asset management activities were positive as assets under management increased by 15%, to SR3.54 billion. Several funds ranked first in their category, including the Al-Arabi Balanced Fund, the Al-Arabi Conservative Fund, the Al-Arabi SAR Money Market Fund, the Al-Arabi US Equity Fund and the Al-Arabi Asian Equity Fund. The Company's largest fund, the Al-Mubarak SR Trade Fund, beat its index by about 1.5 times, and ranked in the top quartile in 2013.

### 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 risks and returns, in line with the Bank's strategic objectives. The group is also responsible for implementing the Basel Accord 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 tools including 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.
- Takes actions to promote and enhance the effectiveness of operational risk management throughout the bank.
- 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 policies and procedures for the Bank in line with industry standards.
- Formulates plans to enable the Bank to continue its critical operations quickly in the event of a disruption to normal business.
- Continuously tests the Business Continuity Plan through a series of exercises across all bank units.
- Promotes an awareness and understanding of business continuity to bank's 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.

#### E-Banking Risk

- Manages e-Banking process and technology risks.
- Coordinates 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 an essential role in safeguarding the sustainability of long-term profitability by balancing growth and credit quality.

### **Compliance**

ANB is committed to the preservation of its reputation, integrity and provision of service to customers through compliance with applicable laws, regulations and ethical standards. All employees are expected to obey these laws, regulations and ethical standards, and management is responsible for ensuring such compliance.

The Board of ANB has a collective responsibility for managing compliance risks across the group. The management of business and support units have responsibility for managing compliance risk at a specific unit level assisted by dedicated compliance officers. ANB has adopted a Compliance Policy, Compliance Manual and an Annual Compliance Program to assist the business and support units effectively manage their compliance risks. This is 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**

The Bank continued to improve the efficiency, effectiveness, and security of information technology (IT) services and operations in 2013. Process automation was introduced using workflow technology. The Mobile banking platform was implemented and acknowledged as one of the best in the market. ANB Payroll and Student prepaid cards were certified by SAMA and launched to customers.

Technology continues to support business strategy in providing services and products to meet Bank's objectives. Initiatives are in progress to implement the Order Management System and analyze the efficiency of the bank wide payment platform in 2014.

Achieving operational, financial and performance efficiencies is a part of all initiatives undertaken by Information Technology Group.

### **Human Resources**

In 2013, Human Resources continued its pivotal role of resourcing, developing, retaining and providing skilled professionals to the various Bank's businesses and support units. In a challenging market for skilled professionals, Human Resources has adopted a pro-active approach aimed at enhancing staff loyalty.

Human Resources continued to attract bright Saudi graduates from leading local and international universities, and enrolling them in its renowned Executive Management Trainees Program.

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