

Arab National Bank
Annual Report 2007



Contents

02	Chairman's Statement
04	Financial Highlights
05	Board of Directors
06	Directors' Report
12	Business Review
17	Auditors' Report
18	Balance Sheet
19	Statement of Income
20	Statement of Changes in Shareholders' Equity
21	Statement of Cash Flows
22	Notes to the Financial Statements
56	Branches



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



**His Royal Highness Prince Sultan
Bin Abdul Aziz Al Saud**
The Crown Prince, Deputy Premier
and Minister of Defence and
Aviation and Inspector General

Chairman's Statement

It gives me great pleasure to present the annual report of Arab National Bank for the year ended December 31, 2007. The Bank's results continued to show a strong performance with reported net income of SR 2,461 million (USD 656 million).

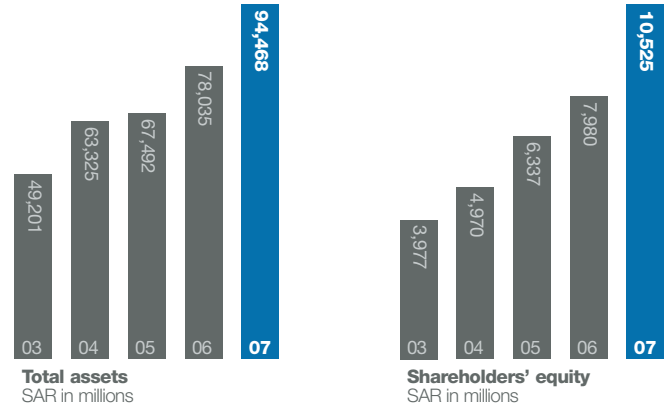
Net loans and advances grew by 23 percent to reach SR 61.1 billion (USD16.3 billion). Customer Deposits also grew up by 19 percent to stand at SR 73.7 billion (USD19.7 billion), while shareholders' equity amounted to SR 10.5 billion (USD 2.8 billion) over the same period.

The Board of Directors recommended increasing the Bank's capital from SR 4,550 million to SR 6,500 million by offering to its shareholders 3 bonus shares for each 7 shares. Total shares outstanding will increase by 43% from 455 million to 650 million shares. The proposed capital increase will be submitted to the General Assembly for approval during the first quarter of 2008.

In July 2007, Fitch Ratings upgraded the Long-term Issuer Default Rating ("IDR") of ANB to 'A' from 'A-' reflecting the Bank's sustained strong performance. It acknowledged ANB as a solid bank with a conservative risk management. The level of non-performing loans by the end of 2007 has declined sharply both in absolute terms and as a percentage of the loan portfolio.

The branch network was further expanded with the opening and remodeling of 35 new branches. All branches and Ladies' Sections were transformed from transaction centers into sales centers. They have been automated and equipped with advanced communication support for the convenience of customers.

In 2007, the bank pressed ahead with the implementation of strategic initiatives in a number of key sectors. In this context, it incorporated its investment subsidiary – ANB Invest – to take over the Bank's investment activities. The new company officially commenced its operations in January 2008.



In the housing sector, the Bank has teamed with the leading Saudi real estate developer, Dar Al Arkan, and its financing affiliate, Kingdom Instalment Company, to set up Saudi Home Loan Company (SHL) to cater to the growing need for affordable housing providing mortgage-backed facilities to the middle and low-income segments.

In parallel, the Bank concluded an agreement with the Consolidated Contractors Company, the leading construction firm in the Middle East, to establish and operate the heavy equipment-leasing arm of ANB.

The Bank also concluded an agreement with a world-class insurance group to launch an insurance company that will commence operations in 2008.

ANB reinforced its commitment to Islamic Banking by dedicating over 38 of its branches to be fully Shari'aa-compatible. Plans are under way to extend these services through ladies' branches in different locations of the Kingdom.

In early 2008, the Bank launched its new logo, which reflects ANB's new corporate identity.

On behalf of the Board of Directors and myself, I would like to express our gratitude and appreciation for the support and guidance extended by the Custodian of the Two Holy Mosques and the Crown Prince, the Ministry of Finance and the Saudi Arabian Monetary Agency. Finally, I take this opportunity to thank our valued customers for their trust and support, and I thank the management and the staff for the outstanding performance achieved by the Bank.

Abdullatif Hamad Al-Jabr
Chairman

Financial Highlights

	Saudi Riyals in Millions				
	2003	2004	2005	2006	2007
Net Commission Income	1,520	1,886	2,189	2,525	2,904
Net Income before Provisions	1,083	1,488	2,076	2,588	2,528
Net Income	767	1,167	1,828	2,505	2,461
Revenue to Expense Ratio	2.32%	2.57%	2.86%	2.96%	2.78%
Return on Assets (ROA)	1.6%	2.1%	2.8%	3.4%	2.9%
Return on Equity (ROE)	20.4%	26.6%	32.3%	35.0%	27%
Provisions / NPL Coverage Ratio	135%	182%	201%	321%	354%
Investments	21,481	21,187	20,423	18,292	21,025
Loans and Advances, net	20,172	28,558	38,779	49,747	61,122
Total Assets	49,201	63,325	67,492	78,035	94,468
Customer Deposits	33,723	46,316	48,832	61,773	73,692
Total Equity	3,977	4,970	6,337	7,980	10,525

Standard & Pooors

A

Moody's

A²

Fitch Ratings

A

Capital Intelligence

A⁺

Board of Directors



Abdullatif H. Al-Jabr Chairman



Dr. Robert Eid Managing Director



Rashid Saad Al-Rashid



Salah R. Al-Rashed



Abdullah Ibraheem Silsilah



Ahmed A. Al-Akeil



Khaled M. Saad Albawardi



Abdel Hamid A. Shoman



Dr. Farouk El-Kharouf



Ghassan H. Tarazi

Shareholders
Saudi Shareholders 60%
Arab Bank Plc
(Amman, Jordan) 40%

Executive Committee
Dr. Robert Eid Chairman
Salah R. Al-Rashed
Ahmed A. Al-Akeil
Khaled M. Saad Albawardi
Dr. Farouk El-Kharouf

Audit Committee
Rashed Salel Al-Bakar Chairman
Othman M. Al-Tuwajri
Dr. Farouk El-Kharouf

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, 2007 to the shareholders.

Introduction

Arab National Bank, a Saudi Joint Stock Company (the Bank), was incorporated in 1980 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 123 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

The Bank continues its strong growth throughout its core business sectors during 2007, benefiting from the favourable economic conditions of the Saudi economy driven by the increase in oil prices coupled with increase of government spending and noticeable growth of the private sector. The Bank was able to compensate for a large portion of the sharp drop in brokerage income incurred from the sluggish stock market trading in 2007. Net income reached SAR 2,461 million compared to SAR 2,505 million for 2006. Foreign exchange income increased by 49% to reach SAR 201 million compared to SAR 135 million for last year, while fees from banking services decreased by 21% due to the large drop in brokerage income.

Loans and advances grew by 23% to reach SAR 61,122 million while investments rose by 15% and customer deposits by 19%, leading to increase of the Bank's assets by 21% to reach SAR 94,468 million compared to SAR 78,035 million in 2006. Such strong growth in the Bank's assets was reflected in increase of the special commission income by 15%.

Total shareholders' equity went up by 32% to SAR 10,525 million compared to SAR 7,980 million in 2006, whereas the total issued shares reached 455 million by end of 2007.

During 2007, the Bank continued to execute a number of development projects including branch network expansion and transformation, information technology infrastructure, in addition to investing in human capital. This has resulted in increase of the operating expenses by 11% compared to 2006, and such investments are considered essential where returns will be reflected in its future performance.

Financial Highlights

	SAR in millions				
	2007	2006	2005	2004	2003
Loans and advances, net	61,122	49,747	38,779	28,558	20,172
Investments, net	21,025	18,292	20,423	21,187	21,481
Customer deposits	73,692	61,773	48,832	46,316	33,723
Shareholders' Equity	10,525	7,980	6,337	4,970	3,977
Total assets	94,468	78,035	67,492	63,325	49,201
Total operating income	3,956	3,855	3,142	2,428	1,900
Total operating expenses	1,495	1,351	1,314	1,261	1,134
Net Income	2,461	2,505	1,828	1,167	767

Geographical Analysis of Revenues

Most of the Bank's revenues are achieved through its activities 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 will be stopped 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 to increase the Bank's capital to SAR 6,500 million through issuance of 3 bonus shares for each 7 shares held as follows:

	SAR '000
2007 net income	2,461,202
Earnings retained from previous years	260,297
Total	2,721,499

Distributed as follows:

Transferred to statutory reserve	(616,000)
Zakat	(68,520)
Issuance of bonus shares	(1,950,000)
Retained earnings for 2007	86,979

Future Plans

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

- Branch network expansion and transformation
- Establishment of specialized companies in different fields, including:
 - Housing finance
 - Investment
 - Heavy equipment lease
 - Insurance
- Total Upgrade of the Bank's information and communication systems including replacement of the core banking system, implementation of new systems in treasury and investment, in addition to the new Basel II capital adequacy standard.
- Regional expansion through opening of branches in some of the Gulf countries.

Principal activities

The Bank's principal activities are organized into three segments: Retail Banking, Corporate Banking and Treasury Banking. The main activities of the Bank's three segments are described below.

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 and liquidity, currency, and commission risks.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia through 123 branches with one international branch located in London, United Kingdom. However, the total assets, liabilities, commitments and results of operations of the London branch are not significant in the context of the Bank's overall financial statements.

The Bank's total assets and liabilities at December 31, 2007, its total operating income, expenses and net income for the year then ended, by business segments, are as follows:

	SAR '000			
	Retail banking	Corporate banking	Treasury banking	Total
Total assets	25,163,478	40,658,696	28,645,387	94,467,561
Total liabilities	35,599,309	40,467,112	7,876,543	83,942,964
Total operating income	2,595,300	907,164	453,795	3,956,259
Total operating expenses	1,230,780	218,673	45,604	1,495,057
Net income	1,364,520	688,491	408,191	2,461,202

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.	This requires amendment of the Bank's Articles of Association. The issue is currently under study.
Fifteen	Nominations and Remunerations Committee.	Functions of the Nominations and Remunerations Committee are assigned to the executive committee.
Fifteen	The General Assembly, based on the Board's proposal, issues the selection rules of the Nominations and Remunerations Committee with membership duration and the committee's method of work.	Same as above.

Directors' Report

(continued)

ANB's new model branches reflect modernity, transparency and strong image.

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, which includes the agreement of strategies and, budgets, approval of 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, 2007 nominated by Arab Bank are Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf, Ghassan Al Tarazi and Dr. Robert Eid (Managing Director).

The Board of Directors as at December 31, 2007 composed of the following:

S	Name	Position
1-	Abdullatif Hamad Al-Jabr	Chairman of the Board (independent)
2-	Dr. Robert Eid	Board member (executive)
3-	Rashid Saad Al-Rashid	Board member (independent)
4-	Salah Rashed Al-Rashed	Board member (independent)
5-	Ahmed Abdullah Al-Akeil	Board member (independent)
6-	Abdullah Ibraheem Silsilah	Board member (independent)
7-	Khaled M. Saad Albawardi	Board member (independent)
8-	Abdel Hamid A. Shoman	Board member (not independent)
9-	Dr. Farouk Al-Kharouf	Board member (not independent)
10-	Ghassan Tarazi	Board member (not independent)

Four regular Board meetings were held during 2007. Below is the attendance record:

Date Attendance record

March 18, 2007

Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf and Ghassan Tarazi.

June 2, 2007

Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf and Ghassan Tarazi.

October 29, 2007

Abdullatif Hamad Al-Jabr, Robert Eid, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Dr. Farouk Al-Kharouf and Ghassan Tarazi.

December 9, 2007

Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Dr. Farouk Al-Kharouf and Ghassan Tarazi.



In the Extraordinary General Assembly Meeting to be held on the first quarter of 2008, Saudi Board members (6 members) will be elected for a three years period effective 1/4/2008.

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	Arriyadh Development Co.
Ahmed Abdullah Al-Akiel	Southern Province Cement Co. Sanad Cooperative Insurance Co
Khaled M. Saad Albawardi	Arab Paper Manufacturing Co.

Principal Board Committees

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

Executive Committee

The Executive Committee is composed of the Managing Director and four board members. Chaired by the Managing Director, the Executive Committee meets twice a month and acts as a general management committee with authority delegated by the Board of Directors. 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 for recommendation to the Board of Directors and ensuring efficient and effective management of the Bank.

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 considers the plans and findings of the Internal Audit Division. It provides a direct communication channel between the external auditors and the Board, ensure 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 comprised of a board member and two independent non-executive directors. The Committee met seven times during 2007. The committee also meets regularly with the Managing Director, the Chief Financial Officer, the Head of Internal Audit, and other members of the Management team as may be required for discussions and deliberations.

During 2007, the Audit Committee comprised of Mr. Rashed Saleh Al-Baker (Chairman), Mr. Othman M. Al-Tuwajiri and Dr. Farouk El-Kharouf.

Internal Control Framework

The Board of Directors 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. 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.

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.

Directors' Report

(continued)

In ANB, advanced segmentation bundles products and services tailored to the growing needs of customers.

Internal Control Framework (continued)

- 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") and the Bank 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 monthly reports of actual results, analysis of variances from plan, review of key performance indicators, and regular updates to forecasts.
- 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.

The Audit Committee reviews the effectiveness of the system of internal control and reports regularly to the Board to assist in its review of effectiveness of the system of internal control.

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.

Bank Shares Ownership Percentages

Arab Bank PLC

At beginning of year		During the year*		At end of year	
No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
130,000,000	40.00%	52,000,000	40.00%	182,000,000	40.00%

Board Members (excluding foreign partner),

Senior Executives, their wives and minor children

At beginning of year		During the year*		At end of year	
Ownership %	No. of shares	Ownership %	No. of shares	Ownership %	No. of shares
17.42%	56,620,415	39.60%	22,424,121	17.37%	79,044,536

Major Shareholders other than Board Members

At beginning of year		During the year*		At end of year	
Ownership %	No. of shares	Ownership %	No. of shares	Ownership %	No. of shares
9.96%	32,373,490	51.88%	16,795,158	10.81%	49,168,648

* Increase in 2007 number of shares is mainly due to issuance of 2 bonus shares for every 5 shares held.

Outstanding Statutory Payments

Outstanding statutory payments are as follows:

	SAR in millions
Zakat attributable to Saudi shareholders	41.1
Income tax payable by the non Saudi shareholders	66.2

Human Resources

The bank had 3,557 staff at the end of 2007, compared to 3,440 at the end of 2006. The Saudization ratio at the end of 2007 reached 90%.

Donations and Social Responsibilities

As an active and dedicated member of Saudi society, 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 5 million during 2007.

Remunerations of Board Members

The members of the Board of Directors remunerations amounted to SAR 2,520,000 in 2007, while attendance allowances for board and executive committee meetings were SAR 111,000, SAR 237,000 respectively. Actual expenses of board members totaled SAR 565,781 including travel and accommodation expenses to attend board and executive committee meetings. Remunerations to the Audit committee members amounted to SAR 270,000 and their attendance allowances reached SAR 57,000.

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) regarding related parties transactions shows amounts of facilities granted to some of the Board members. These facilities are governed by SAMA's instructions which state that all facilities granted to non-banking parties should be fully guaranteed.

External Auditors

In its meeting held on March 18, 2007, 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 2007.

Statement of Directors' Responsibilities in Relation to Financial Statements

The Directors are required by the Companies Act to prepare financial statements for each financial year which give a true and fair view of the financial position of Arab National Bank (ANB) together with its subsidiary undertakings as at the end of the financial year and of the profit or loss for the financial year. The Directors are also required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that ANB has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors acknowledge that in preparing the financial statements, ANB has maintained proper books of accounts and used appropriate accounting policies as disclosed in the 'Notes to the Financial Statements', consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

The Directors acknowledge also that the system of internal control highlighted above, which complies with Saudi Arabian Monetary Agency guidelines, is sound in design and has been effectively implemented.

The Directors are responsible for ensuring that ANB keeps accounting records which disclose with reasonable accuracy at any time the financial position of ANB and which enable them to ensure that the financial statements comply with the Companies Act, the Banking Control Law and the Listing Rules issued by Capital Market Authority.

Board of Directors

20 January 2008

Business Review

ANB in 2007 continued its progress in building upon the existing foundations of its core businesses. It further developed its diversification strategy through the establishment of new business activities in a number of key sectors.

The outstanding developments for the year are outlined below:

Retail Group

The Retail Group reported significant developments on several fronts:

Expansion of the network

The Retail Group achieved significant progress in 2007 by setting up seven new branches, six Telemoney Centers, two sales centers and three Ladies' Sections. In addition, 149 new ATMs were installed across the kingdom.

Branches transformed into sales centers

All branches and Ladies' Sections were transformed from transaction centers into sales centers. They were also equipped with appropriate infrastructural facilities and advanced communication support for the convenience of customers. Operations have been centralized to free up the time of staff in the branches to focus on sales and service.

Segmentation

ANB has introduced life-stage and wealth-income segmentation, and designed a wide range of product packages that suit the needs of each segment. This will give ANB a competitive edge in the market by shaping product offerings according to customer needs.

New product launches

ANB's Retail Group gave a new momentum to its Islamic banking products, such as land and home finance, Islamic car leasing and sales finance.

Strategic tie-ups

ANB forged a strategic alliance with Dar Al Arkan by incorporating Saudi Home Loan Company (SHL), an affiliate of ANB, to tap the rapid growth rate expected in the residential sector, thereby capitalizing on the construction boom in the Kingdom.

ANB took a 16.7% stake in the newly-established Ejar Crane and Equipment Company, incorporated in Dubai, to create an operation specializing in the leasing of heavy equipment – another step in the Bank's strategy to capitalize on the regional construction boom.

Investment Services

In line with the requirements of the Capital Market Authority (CMA), the Bank incorporated an investment subsidiary – ANB Invest – to take over the Bank's investment activities.

The Bank's main investment activities have been reassigned to the new investment company.

Corporate & Merchant Banking Group

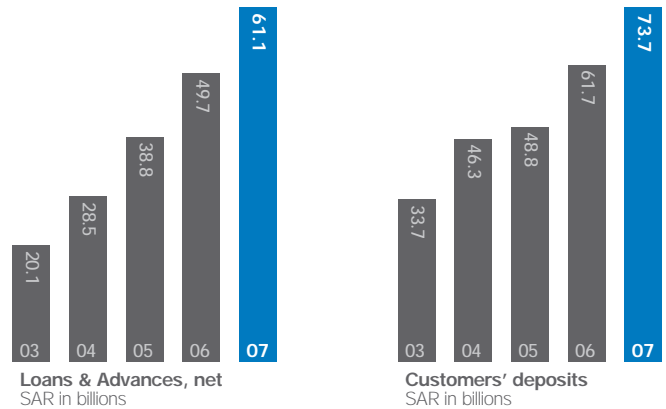
Corporate & Merchant Banking Group (CMBG) set up the new International Contracting Unit to meet the demands of its growing customer base. The Group's focus continues to be relationship-driven while diversifying its sources of income through a wide range of product offerings from transactional banking and trade to foreign exchange and project loans.

Notable activities in 2007 were as follows:

- **cash management** - ANB won a number of significant mandates to provide cash management solutions. Among these, the Bank entered into an agreement to provide the Saudi Ministry of Foreign Affairs (MOFA) with a cash management solution that would complete the entry visa automation process by providing on-line payments. This project will eventually be implemented globally in Saudi Arabia's 114-plus embassies and consulates worldwide.
- **growing loan portfolio** - CMBG's loan portfolio recorded notable growth, continuing its mandate to provide financial products and services to high-quality corporate clients. The growth has been selective with prudent lending criteria that focus on companies with strong balance sheets and cash flows. While continuing to support the business growth of existing customers, the Group has broadened its customer base by adding new quality relationships across various industry sectors.
- **portfolio quality** - the corporate loan portfolio is well diversified across a wide range of industries and groups. CMBG has a well-defined sector strategy. The portfolio is impeccably clean & healthy with a negligible level of non-performing loans achieved by maintaining strong credit discipline and pro-active risk management.
- **real estate sukuk** – ANB acted as joint lead manager, joint underwriter and joint book-runner for a multi-billion dollar corporate Sukuk (Islamic bond) issued by one of the key real estate developers operating in Saudi Arabia.
- **underwriting IPOs** – ANB Corporate & Merchant Banking participated as underwriter in several key initial public offerings.



Dr. Robert Eid
Managing Director



Commercial Banking Division

Sustaining the overall business momentum, the division continues to grow in size and achieve strong results. Focus has been on strengthening existing relationships and expanding the customer base by adding new quality relationships through concentrated marketing efforts offering a diversified range of products and services. The division was also successful in enhancing its fee-based revenue streams by cross-selling cash management, trade finance, foreign exchange and derivative products.

International Contracting

ANB has launched a dedicated International Contracting Unit within the Corporate and Merchant Banking Group to deliver corporate banking products and services, including project-related financing facilities, to international contractors executing contracts in the Kingdom. The unit sees bright prospects in the years to come with the recent oil boom and the opening up of the mining, railways and industrial sectors to foreign investors.

Treasury

Treasury's performance in 2007 was the result of prudent risk-taking that enhanced its contribution of to the Bank's overall profits.

The Treasury benefited from the proactive management of arbitrage opportunities in the interest rate and foreign exchange markets.

London Branch

Taking advantage of a prolonged period of capital appreciation in the UK property market over the past decade, ANB's London Branch has continued to provide credit facilities to assist clients in financing both residential and commercial properties and facilitate their access to planning services, tax and legal expertise.

The London Branch continued its successful track record in capturing a significant share of trade finance business between Saudi Arabia and Europe.

Additionally, the London Branch provides extensive credit facilities and bonding lines to international companies with projects in the Middle East.

Information Technology

The migration of Information Technology (IT) to Service Oriented Architecture (SOA) concepts has begun and will continue through 2008. The adoption of this industry standard will enhance the Bank's ability to offer the very best products, processes and services available in the industry. The overall impact of this

endeavor will result in an organization that is more efficient and effective in delivering prompt, high-quality services to the Bank's various business units.

SOA-related activities include but are not limited to the following:

- **IT control and governance** – improvements will continue into 2008. The Core Banking System replacement project continued to make excellent progress in 2007 with implementation starting in 2008; and
- **IT group restructuring** – having started in 2007, IT's restructuring will continue into 2008. The goal is to stabilize ANB's IT infrastructure and the services it delivers to various business units. Network infrastructure improvements will be completed in 2008, resulting in greater network capacity and higher speed.

Alternative Delivery Channels

The Alternative Delivery Channels (ADCs) Division works in tandem with the Retail Banking & Branches Division to facilitate their broad vision of streamlining the banking operation to maximize efficiency and enhance customer satisfaction.

ADCs consist of ANB's Hatif Alarabi Phone Banking Services, the ATM Network, Telesales, Retail Internet Banking and the Retail Customer Care Unit. Highlights include:

- **Best Call Center** – Hatif Alarabi maintained its position as the Best Call Center in Saudi Arabia for the third year running in 2007.
- **Retail Internet Banking** – during the year, the Bank rolled out the new Retail Internet Banking project, which is expected to be operational by the end of March 2008.
- **Customer Complaint Management System** – in 2007, ANB launched the Customer Complaint Management System across the entire bank to boost the efficiency of logging, tracking, managing and offering the best solutions for customer complaints.
- **ATM Network** – the network was expanded across the Kingdom in 2007, bringing the tally to more than 700 terminals of conventional ATMs and Cash Acceptance Machines.



Business Review

(continued)

ANB branches were remodeled to focus on sales and service and to cater for customers' needs of banking, investment, insurance, housing and personal finance products.

Risk Management Group

ANB's Risk Management Group (RMG) provides independent and centralized management of risks through identification, measurement, monitoring, mitigation and control mechanisms, to optimize risk management return, in line with the Bank's strategic objectives. RMG is instrumental in maintaining a high-quality loan portfolio in compliance with Basel II capital adequacy requirements as stipulated by the Saudi Arabian Monetary Agency (SAMA).

The Group's activities are divided into four key functional areas:

- **Credit Risk Management** – provides enterprise wide management of credit risk and lays down lending policies. CRM also enhances systems and procedures to improve credit risk management techniques and comply with the Internal Rating-Based (IRB) approach of Basel II;
- **Market Risk Management** – identifies measures and monitors market and liquidity risk, while ensuring compliance with internationally acknowledged practices in setting risk policy and risk limits;
- **Operational Risk Management** – ORM formulates and implements appropriate policies, governance standards and operational controls, as well as managing a centralized operational loss database;
- **Business Continuity Management** – BCM seeks to prevent the disruption of business operations in the event of unforeseen eventualities.

The Credit Group

The Credit Group is responsible for the assessment and review of credit risk and the delivery of credit services to clients. The Group plays a pivotal role in the Bank's long-term profitable growth, by following the best risk management practices while continuing to review and develop its procedures and systems to further enhance efficiency and quality. The Bank's conservative credit environment has contributed to the impeccable quality of the loan portfolio, evidenced by the continuing decline in the level of non-performing loans by the end of 2007, both in absolute terms and as a percentage of the portfolio.

Compliance

ANB has effective corporate governance and compliance practices, which are essential in achieving and maintaining trust and confidence in the banking system. During the year, the Compliance Division has been involved in overseeing the implementation of the customer complaints handling process in line with SAMA directives. The initiative to implement an e-learning platform for the Bank's Anti Money Laundering training program was also completed.

The Compliance Division also oversaw the smooth spin-off of the Investment Services business to the new company ANB Invest, in line with the rules and regulations of the Capital Market Authority.

Human Resources and Training

The Human Resources Group (HRG) automated its operations in 2007 using Oracle HRMS modules across a broad spectrum of activities. HRG launched several initiatives, including the recruitment, training and deployment of a substantial number of Saudi female staff.

HRG has drawn up a detailed framework to scout for talent across the Middle East/ Gulf region to promote ANB as the "Employer of Choice."

HRG skillfully managed the "human side" of the transfer of ANB staff to the newly incorporated ANB Invest.

ANB has developed and implemented several motivational programs for employees to achieve cost reductions while proactively managing staff retention to boost productivity. Furthermore, the "Staff Suggestion" and "Employee Grievance" schemes were instituted to encourage transparency and a spirit of camaraderie among ANB staff.

HRG also set up a Ladies HRG Wing to address issues concerning female employees and enable them to interact freely with the HRG Group to discuss and foster healthy employee relations.

Social Responsibilities Programmes

The Bank plays an active role in supporting its community by contributing to a number of social responsibility programs. One major beneficiary of ANB's contributions and donations is the Association of Disable Children, which received from ANB over SAR 26 millions since 1993.



