

Arab National Bank
Annual Report 2009



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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 Message



Abdullatif Hamad Al-Jabr
Chairman

It gives me great pleasure to present the annual report of Arab National Bank for the year-ended December 31, 2009.

When I wrote to you last year, I cautioned that 2009 would be a year of significant challenges – and it did not disappoint. Notwithstanding these challenges, ANB delivered a very satisfactory performance for the year, with reported net income of SAR 2,370 million (USD 632 million) and year-end total assets of SAR 110.3 billion (USD 29.4 billion).

Throughout 2009 we continued our efforts to improve the service experience for our valued customers. The year was again marked by a number of initiatives designed to broaden the scope of our business and leverage additional synergies out of our undoubted franchise. Key milestones for 2009 are outlined in the Business Review, the most notable of which are:

- The branch network was expanded with the opening of eight new branches
- Our capacity to deliver Shariaa-compliant products and services was greatly enhanced, with 89 branches (52% of all branches) now dedicated to this key growth segment, and
- The implementation of a new Core Banking System which has enabled the bank to offer 24/7 service to customers.

Our commitment to invest in and upgrade our infrastructure and service delivery channels will continue in 2010.

As mentioned above, we anticipated and were prepared for a difficult environment in 2009. Throughout the year we exercised a cautious approach to new business and dedicated significant resources to meeting the challenges presented. Although markets returned to some semblance of normality in the latter half of 2009, we anticipate that there may well be further turbulence during 2010. Nevertheless, we remain convinced that the Saudi economy is very well positioned to cope with any challenges it might face. The 2009 budget was a major factor in sustaining the momentum of the economy and we are pleased to see that a similar fiscal stance has been adopted for the recently announced budget for 2010.

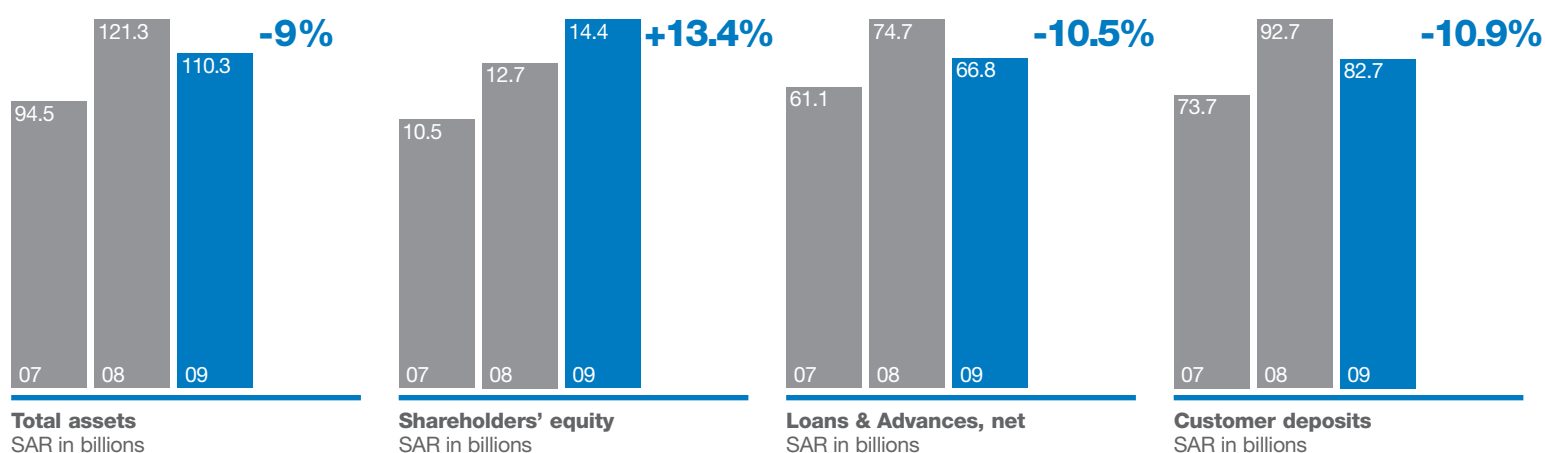
We remain of the view that our strong capital base, conservative approach to risk, and the continued loyal support of our customers allows us to look forward to 2010 with confidence and vigour.

On behalf of the board of directors and myself, I would like to thank our valued customers for their trust and support, and I am pleased to extend my warm congratulations to the management and staff on what has again been an outstanding performance. I wish them every success in the year ahead.

Finally, I want to express our gratitude for the support and guidance of the custodian of The Two Holy Mosques, the Crown Prince, the Ministry of Finance and the Saudi Arabian Monetary Agency.

Abdullatif Hamad Al-Jabr
Chairman

Financial Highlights



	Saudi Riyals in Millions				
	2009	2008	2007	2006	2005
Net Commission Income	3,456	3,354	2,904	2,525	2,189
Net Income before Provisions	2,897	2,546	2,528	2,588	2,076
Net Income	2,370	2,486	2,461	2,505	1,828
Expense to Revenue Ratio	36%	35%	36%	34%	34%
Return on Assets (ROA)	2.0%	2.3%	2.9%	3.4%	2.8%
Return on Equity (ROE)	17.5%	21.4%	26.6%	35.0%	32.3%
Investments	23,261	28,228	21,025	18,292	20,423
Loans and Advances, net	66,811	74,662	61,122	49,747	38,779
Total Assets	110,297	121,307	94,468	78,035	67,492
Customer Deposits	82,680	92,743	73,692	61,773	48,832
Total Equity	14,369	12,671	10,525	7,980	6,337

A

Standard & Poors

A¹

Moody's

A

Fitch Ratings

A⁺

Capital Intelligence

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

Audit Committee

Ghassan H. Tarazi - Chairman
Rashed Saleh Al-Bakar
Othman M. Al-Tuwajri

Board of Directors

Abdullatif Hamad 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



Mohammed A. Alghanamah



Ghassan H. Tarazi

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, 2009 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 139 branches in the Kingdom of Saudi Arabia and one branch in London, UK. The Bank provides a full range of banking and financial services to its retail and corporate customers.

Financial Results

Net income for the year amounted to SAR 2,370 million compared to SAR 2,486 million for 2008, a decrease by 4.7% a relatively good result considering the difficult international and regional business environment.

Net special commissions income increased by 3%, while fees from banking services decreased by 33% and foreign exchange income decreased by 2.3%.

Loans and advances decreased by 10.5% to reach SAR 66,811 million while the investments portfolio decreased by 17.6% to reach SAR 23,261 million. Customer deposits decreased by 10.9% to reach SAR 82,680 million compared to SAR 92,743 million in 2008. Total assets decreased by 9% to reach SAR 110,297 million by end of 2009.

Total equity went up by 13.4% to SAR 14,369 million compared to SAR 12,671 in 2008. Total issued shares stood at 650 million by end of 2009.

During 2009, the Bank continued to execute a number of development projects including its branch network transformation and expansion and information technology infrastructure. This has resulted in an increase in the operating expenses (excluding provisions) by only 1.2% compared to 2008, reflecting tight control over expenses. The bank recent efforts in expanding and transforming its branch network as well as the continuous upgrade of its IT infrastructure has helped to attract more customers and elevate its service quality to a higher level. Furthermore, the Bank's conservative culture has helped it to better weather the difficult international financial market.

Financial Highlights

	SAR in millions				
	2009	2008	2007	2006	2005
Loans and advances, net	66,811	74,662	61,122	49,747	38,779
Investments, net	23,261	28,228	21,025	18,292	20,423
Customer deposits	82,680	92,743	73,692	61,773	48,832
Shareholders' Equity	14,369	12,671	10,525	7,980	6,337
Total assets	110,297	121,307	94,468	78,035	67,492
Total operating income	4,493	4,135	3,956	3,855	3,142
Total operating expenses	2,128	1,642	1,495	1,351	1,314
Net Income	2,370	2,486	2,461	2,505	1,828

Geographical Analysis of Revenues

Almost all of the Bank's revenues are achieved through its activities in the Kingdom of Saudi Arabia.

Directors' Report

(continued)

Dividend Distribution Policy

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

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

The Board of Directors proposed dividend distribution as follows:

	SAR '000
2009 net income	2,370,012
Earnings retained from previous years	1,217,080
Total	3,587,092
Distributed as follows:	
Transferred to statutory reserve	(610,000)
Zakat	(61,454)
Dividend distribution (SAR 1 per share)	(650,000)
Retained earnings for 2009	2,265,638

Future Plans

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

- Continuing branch network expansion and transformation.
- Incorporate an insurance company.

It is worth mentioning that the Bank incorporated a heavy equipment leasing company which started its operation during 2009.

- Continuing upgrade of the Bank's information technology that includes new data centre, treasury systems, MIS system, CRM and various risk management systems.

Principal activities

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

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

Investment and brokerage services

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

Other

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

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

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

The Bank's total assets and liabilities as at December 31, 2009, its total operating income, expenses and net income for the year then ended, by business segments, are as follows:

2009	SAR '000					Total
	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	
Total assets	24,714,915	45,724,514	37,530,285	42,580	2,285,026	110,297,320
Total liabilities	41,290,887	42,868,253	10,819,549	22,836	817,528	95,819,053
Total operating income	2,120,827	1,235,271	606,475	122,552	408,334	4,493,459
Total operating expenses	1,189,019	766,334	75,534	88,128	9,033	2,128,048
Gain from an associate	-	-	-	-	1,601	1,601
Loss attributed to Non-controlling interest	-	-	-	-	3,000	3,000
Net income for the year	931,808	468,937	530,941	34,424	403,902	2,370,012

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:

Board members at December 31, 2009 appointed by Arab Bank are: Abdel Hamid A. Shoman, Mohammed A. Alghanamah, Ghassan H. Tarazi and Dr. Robert Eid (Managing Director).

Article	Procedure	Reasons
Six	Voting on selection of Board members in the General Assembly should be through accumulative voting method.	The Bank's Articles of Association include the normal voting right.

The Board of Directors as at December 31, 2009 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-	Mohammed A. Alghanamah	Board member (not independent)
10-	Ghassan H. Tarazi	Board member (not independent)

Term loan and debt securities in issue

During 2006, the Bank has issued USD 500 million of 10-year subordinated floating rate notes under its USD 850 million Euro Medium Term Notes program. The notes carry a special commission rate of Libor plus 83 bps. The notes are non-convertible, unsecured and listed on the London stock exchange. These notes are callable after 5 years from issuance. During 2009, USD 50 million was purchased from secondary market and retired.

Four regular Board meetings were held during 2009. Below is the attendance record:

Board of Directors

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

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

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

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

Date Attendance record

March 22, 2009

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, Mohammed A. Alghanamah and Ghassan Tarazi.

May 19, 2009

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, Mohammed A. Alghanamah and Ghassan Tarazi.

September 29, 2009

Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Khaled M. Saad Albawardi, Mohammed A. Alghanamah and Ghassan Tarazi.

December 20, 2009

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, Mohammed A. Alghanamah and Ghassan Tarazi.

Directors' Report

(continued)

Directors' membership in other listed joint stock companies' Boards

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

Director	Joint stock company
Salah Rashed Al-Rashed	- Arriyadh Development Co.
Ahmed Abdullah Al-Akeil	- Southern Province Cement Co. - Sanad Cooperative Insurance Co. - Aldrees for Petroleum Services and Transportation
Khaled M. Saad Albawardi	- Arab Paper Manufacturing Co. - Basic Chemical Industries Co. (BCI)

Principal Board Committees

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

Executive Committee

The Executive Committee is composed of the Managing Director and four board members. Chaired by the Managing Director, the Executive Committee meets on average twice a month and acts as a general management committee with authority delegated by the Board of Directors. During 2009, the executive committee held 21 meetings. This Committee is responsible for implementing Bank's policy, monitoring business performance, managing risks and ensuring the effectiveness of internal controls, approving sizable capital expenditure and ensuring efficient and effective management of the Bank. The Executive Committee performs the functions of the Nominations and Remunerations Committee as per authorization of the Board of Directors.

During 2009 the executive committee comprised Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Mohammed A. Alghanamah and Khaled M. Saad Albawardi.

Annual remunerations and compensations to non-executive Board members amounted to SAR 2,280,000 and SAR 240,000 for executive members, and allowances to non-executive Board members amounted to SAR 324,000 and SAR 75,000 for executive members. Compensations to non-executive Board members amounted to SAR 549,000 including travel and accommodation expenses. Salaries to senior executives including CEO and CFO amounted to SAR 16,036,320, while their allowances and compensations reached SAR 15,266,289 and their annual remunerations reached SAR 3,731,519. Remunerations to the audit committee amounted to SAR 270,000 and their attendance allowances reached SAR 51,000.

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 channel between the external auditors and the Board, ensures the external audit is conducted in a thorough and effective manner and that the reports by the external auditors are properly actioned. The Committee recommends the appointment of external auditors and reviews their plans and work results. The Bank complies with the Rules and Guidelines for Banks in Saudi Arabia for Organizing Audit Committees issued by the Saudi Arabian Monetary Agency.

The Committee is comprised a board member and two independent non-executive directors. The Committee met six times during 2009. The committee 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 2009, the Audit Committee comprised Mr. Ghassan Tarazi (Chairman), Mr. Rashed Saleh Al-Baker and Mr. Othman M. Al-Tuwajri.

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.

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 monitor, control and mitigate such risks.

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

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

- Authority to manage the businesses of the Bank is delegated to the Managing Director within limits set by the Board of Directors. There are bank-wide policies, procedures and manuals in place covering financial controls, business processes, information security, credit policy and compliance with regulatory and legislative requirements. Additionally, delegated limits apply to all transactions and risk positions to ensure that exposures are controlled. The accountabilities of key managers are designed to ensure appropriate segregation of duties.
- In each of the key business areas, regular independent checks are made on operating performance and customer service to ensure that control procedures are being observed.
- Systems and procedures are in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational errors and fraud. Exposure to these risks throughout the Bank is monitored by each of the Operational Risk Steering Committee, the Asset and Liability Committee ("ALCO"), Market Risk Policy Committee (MRPC) and the Bank Senior Credit Committee. These exposures are also monitored by the Executive Committee.
- Risk assessments are also completed as part of all project appraisals, and risk is considered within the budget and business planning exercises, which are reviewed and approved by the Board of Directors.
- There is a system of financial reporting to the Board of Directors based on an annual plan, with 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 (shares in thousands)

1-Arab Bank PLC

At beginning of year 01/01/09		During the year*		At end of year 31/12/09	
No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
260,000	40.00	No change	No change	260,000	40.00

2-Major Shareholders other than Board Members

Name	At beginning of year 01/01/09		During the year*		At end of year 31/12/09	
	No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
General Organization for Social Insurance	70,241	10.81	No change	No change	70,241	10.81

3-Board Members (excluding foreign partner), Senior Executives, their wives and minor children

Name	At beginning of year 01/01/09		During the year*		At end of year 31/12/09	
	No. of shares*	Ownership %	No. of shares*	Ownership %	No. of shares*	Ownership %
Abdullatif Hamad Al-Jabr and Al-Jabr Trading Co.	36,827	5.67	- 5	0.0008	36,822	5.67
Rashid Saad Al-Rashid Salah Al-Rashed and Rashed Abdul Rahman	7,641	1.18	No change	No change	7,641	1.18
Al-Rashed and Sons Co.	64,798	9.97	No change	No change	64,798	9.97
Ahmed Abdullah Al-Akeil	355	0.05	-203	0.03	152	0.02
Abdullah Ibraheem Salsilah	36,9	0.006	No change	No change	36,9	0.006
Khaled M. Saad Albawardi	38,6	0.006	No change	No change	38,6	0.006
Ali Ahmed Abdullah Alholaily	10	0.00	+ 0,4	0.0000	10,4	0.00
Asad Abdullah Hashem Alsadah	10	0.00	- 0,3	0.0000	9,7	0.00
Adel Abdulmoheisen Almangour	3	0.00	+ 0,3	0.0000	3,3	0.00

* Board members' shares include wives and minor children.

Outstanding Statutory Payments

Outstanding statutory payments are as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders	36.9
Income tax payable by the non Saudi shareholders	11.9

No other statutory payments during 2009.

Human Resources

The bank had 3,450 staff at the end of 2009, compared to 3,666 at the end of 2008. The Saudization ratio at the end of 2009 reached 91%.

Donations and Social Responsibilities

As dedicated, the Bank has a strong belief in its role in the society it is honored to serve. This approach is demonstrated by the Bank's continued assistance to charitable, educational, and other social institutions, where the bank granted donations totaling SAR 5.6 million during 2009.

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

Accounting Standards

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

External Auditors

In its meeting held on March 16, 2009, 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 2009.

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 subsidiaries 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

25 January 2010

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

The past year was a turbulent one in global markets. While the Saudi Arabian economy was relatively insulated from the worst effects of the downturn, market conditions nevertheless had some impact on the local market and the behavior of economic agents. Despite these adverse conditions, Arab National Bank recorded a balanced level of activity across its core businesses, launched or further developed a few new products and services, and introduced numerous enhancements to its service levels and customer relationship management. Net income in 2009 reached a SAR 2,730 million, compared to SAR 2,486 million in 2008, while total balance sheet footings were SAR 110.3 billion, a reflection of the Bank's cautious stance throughout the year.

Notable developments during the year include:

Retail Banking

Expansion of the branch network

ANB's branch network expansion programme continued in 2009, with the establishment of eight new branches, 10 TeleMoney centres, two sales centres and two new ladies' sections. In addition, 50 new ATMs were installed across the Kingdom.

Segmentation

The life-stage and wealth-income segmentation programme continued to focus attention on target customer groups, and tailored product packages were offered to meet key customer needs and preferences. These initiatives resulted in better service delivery, stronger relationship management and increased sales and profitability.

Alternative Delivery Channels

The bank's alternative delivery channels include the Hatif Alarabi phone banking service and the ATM network. During 2009, further initiatives were undertaken to enhance these delivery channels as part of the bank's strategy to migrate low-value and routine transactions away from branches.

Corporate Banking

Corporate Bank

The adverse effects of the global economic downturn had a significant impact on some major Saudi corporates during 2009. As a result, ANB faced a number of challenges that required immediate and ongoing attention. The Bank remains vigilant and very selective in terms of new business. Notwithstanding the uncertain market, the Corporate Bank has continued to build a diversified corporate portfolio and expand its income base. Key to its strategy is strengthening its relationships with top-tier corporates in the Kingdom and providing them with a broader range of products and services, including cash management, trade finance, foreign exchange, Islamic banking, and project and structured finance.

International Contracting

Since 2007, this unit has specialized in delivering corporate banking products and services, as well as project-related financing. It has a growing list of international clients in the US, Europe and the Far East and we see opportunities for lucrative business as the Kingdom continues its programme of investment in infrastructure and services.

Commercial Banking

ANB's Commercial Banking Division continues to deliver well-balanced growth and solid yields, and is strengthening its position in the mid-market segment while maintaining strict credit control standards. It also continued to grow its Shariaa-compliant products and services. We see very attractive opportunities to enhance the Bank's franchise and foster asset growth in this expanding market segment.

Islamic Banking

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

- **Product development:** Developing Shariaa-compliant products that provide financial solutions for all customer segments. A range of finance, investment, hedging and Takaful products has been successfully developed in accordance with Shariaa guidelines.
- **Shariaa compliance and Shariaa board secretariat:** The activities of business units and affiliates were reviewed to ensure compliance with Shariaa board guidelines, including board meeting facilitation, documentation and dissemination of board directions.
- **Training:** During 2009, more than 470 bank employees were trained in Islamic banking and ANB's Shariaa-compliant products.
- **Branch conversion:** This year, 32 outlets were either opened or converted from conventional banking to dedicated Islamic branches. In total, 89 branches, including 18 ladies' sections, representing 52% of ANB's retail network, are now dedicated to providing Shariaa-compliant products and services.

Treasury

Treasury's strong performance in 2009 was the result of balance sheet optimization, careful interest rate management and active cross-selling. We continue to build a strong infrastructure to support cross-selling within the bank and further develop our client-driven business strategy. Conscious of the challenges facing global markets and the banking industry generally, Treasury will pursue a conservative asset building strategy through diversification and capital preservation.

London Branch

The London Branch provides a growing number of customers with private banking services, particularly residential property purchases. The ANB Platinum credit card, introduced in 2008, was instrumental in the growth in accounts at the branch. Corporate banking services continue to focus on European companies seeking access to the Gulf market. It also supports clients and contractors with their commercial property purchases and financing.

Strategic Investments

The Strategic Investments Group was created in 2008 to supervise the Bank's investment in its affiliates and joint ventures. The highlights of 2009 were:

- Saudi Home Loans completed its first full year of operations and has already established itself as a leading player in the home finance market.
- Arabian Heavy Leasing was launched in late 2009.
- Plans are well advanced to launch the bank-assurance venture early in 2010.

ANB Invest

The Tadawul, or Saudi stock market, had a very volatile year. This prompted ANB Invest to focus on low risk offerings, cost control and best practices to ensure that the business is well positioned when stronger market conditions return. A number of initiatives were undertaken, designed to help grow the market share in brokerage.

In recognition of the progress we have been making, ANB Invest received two prestigious awards: Al-Mubarakah Managed Portfolio won the Lipper Fund Award as the top performer in the Mixed Asset USD Balanced-Global category, and Zawya ranked our Al-Arabi Saudi Companies Fund Portfolio first for the three-year period that ended 31 December 2008.

Risk Management

ANB's Risk Management Group (RMG) provides an independent and centralized risk management function, to ensure that the best balance between risk and return is achieved, in line with the bank's strategic objectives. RMG is also responsible for implementing the Basel-II capital adequacy requirements. Its activities cover four 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 approach.

Market risk

- Identifies, measures and monitors market and liquidity risk using a combination of rate sensitivities, gap analysis, value at risk, and stress testing.
- Helps to manage the risk profile of the bank's balance sheet.
- Ensures that the bank's risk policy and risk limits comply with international best practices.
- Uses enhanced market risk management techniques to meet the requirements of the Basel II internal model approach.

Operational risk

- Develops operational risk management strategies in compliance with corporate governance standards.
- Manages a centralized operational loss database and conducts operational risk assessments using control and risk self-assessment methods.
- Continues to work towards implementing the requirements of the Basel II advanced measurement approach.

Business continuity

- Formulates plans to enable the bank to recover its critical operations quickly in the event of disruption to normal business.
- Continually tests the preparedness and robustness of the Business Continuity Centre through a series of exercises across all bank units.

Business Review

(continued)

Credit Group

The Credit Group is responsible for assessing and reviewing the Bank's credit risk, the delivery of credit services to clients, and for observing best risk management practices. It plays a pivotal role in safeguarding the sustainability of long-term, profitable growth by balancing growth in the credit portfolio with excellent credit quality. The challenges faced during 2009 mean that we remain vigilant and continue to emphasize the value of our prudent approach to risk.

Compliance

Customer complaints were significantly reduced this year and the Compliance Division continues to be committed to enhancing service quality across the bank. Both the Service Quality and Information Security departments were brought under the control of the Compliance Division to enhance enterprise-wide oversight and monitoring. In addition, the bank also introduced the first e-learning compliance and anti-money laundering awareness program, aimed at all bank employees.

Information Technology

ANB 2009 saw the migration of its systems to the new SPAN 2 system of SAMA, which supports EMV (smart chip) cards, as well as the implementation of the new core banking system, which has enabled the Bank to offer 24/7 service, one of the few currently in the Kingdom.

ANB became the first bank to convert its wide area network from frame-relay to MPLS. This has improved our network reliability and performance. Many other major technology infrastructure upgrades were also completed during the year, aimed at improving reliability and productivity.

Human Resources and Training

The Human Resources Group continued to deliver functional and professional support across the Bank. The Bank continues to enhance its services and develop new programmes to ensure that our staff are constantly prepared to face the complexities of a constantly evolving market environment. A major achievement was the introduction of a medical insurance scheme for all employees through BUPA. We also successfully recruited several talented Saudi graduates from local and international universities to our trainee management program.