

**Arab National Bank**  
Annual Report 2010



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ANB offers a full range of domestic and international commercial and Islamic products and services to the retail and corporate sectors. The Bank also offers a consultancy and investment, mutual funds and assets management, local & international equity trading, foreign exchange and treasury services.

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



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**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

Yet again, it gives me great pleasure to present the annual report of Arab National Bank for the year-ended December 31, 2010.

Thankfully, the global upheavals of 2008 and 2009 are now behind us, though 2010 was not without its challenges – with particular concerns arising from sovereign debt worries in the Euro-zone and significant volatility in currency markets, and emerging differences in the viewpoints of major economic blocs.

However, the Saudi Arabian economy benefited from gradual return to a climate of trust driven primarily by the government extensive capital spending policy, particularly in the development programmes sphere. The banking environment was characterized by a cautious stance, subdued credit appetite, focus on consolidation of banks financial positions, historically low special commission rates and exceptional provisioning to cover potential loan losses.

Notwithstanding challenges to the banking sector, Arab National Bank delivered a satisfactory performance, with an increase in total footings from SAR 110 billion in 2009 to SR 116 billion in 2010. Net income reached SAR 1,911 million in 2010 compared with SR 2,370 million in the previous year.

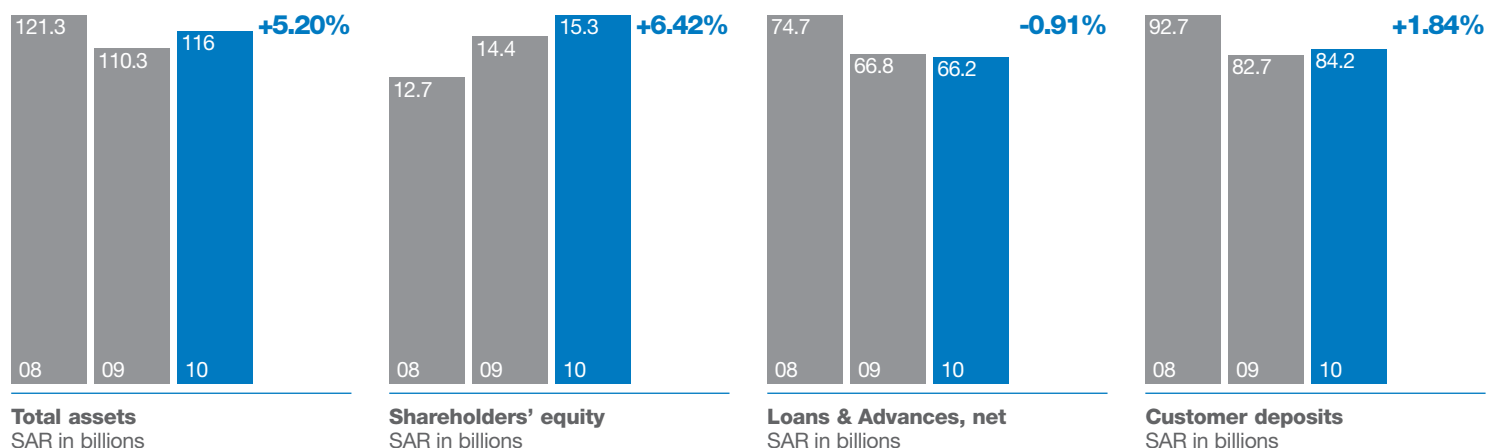
The robust Saudi Arabian economy, strong economic fundamentals and prudent spending policy are positive factors that have allowed us to look forward to 2011 with confidence.

On behalf of the Board of Directors and myself, I want to express my gratitude for the support and wise guidance of the Custodian of The Two Holy Mosques, the Crown Prince, the Second Deputy Premier, the Minister of Finance and the Governor of the Saudi Arabian Monetary Agency. Finally, I wish to acknowledge the support and trust of our valued customers, and to extend my warm appreciation and thanks to the management and staff for what has again been an outstanding performance. I wish them every success in 2011.

A handwritten signature in black ink, appearing to be 'Abdulatif Hamad Al-Jabr', written in a cursive style.

**Abdullatif Hamad Al-Jabr**  
Chairman

## Financial Highlights



	Saudi Riyals in Millions				
	2010	2009	2008	2007	2006
Net Commission Income	<b>3,158</b>	3,456	3,354	2,904	2,525
Net Income before provisions for credit losses	<b>2,875</b>	2,897	2,546	2,528	2,588
Net Income	<b>1,911</b>	2,370	2,486	2,461	2,505
Expense to Revenue Ratio	<b>38.6%</b>	36%	35%	36%	34%
Return on Assets (ROA)	<b>1.7%</b>	2.0%	2.3%	2.9%	3.4%
Return on Equity (ROE)	<b>12.9%</b>	17.5%	21.4%	26.6%	35.0%
Investments	<b>32,841</b>	23,261	28,228	21,025	18,292
Loans and Advances, net	<b>66,203</b>	66,811	74,662	61,122	49,747
Total Assets	<b>116,035</b>	110,297	121,307	94,468	78,035
Customer Deposits	<b>84,199</b>	82,680	92,743	73,692	61,773
Total Equity	<b>15,291</b>	14,369	12,671	10,525	7,980

**A**

Standard & Poor's

**A<sup>1</sup>**

Moody's

**A**

Fitch Ratings

**A<sup>+</sup>**

Capital Intelligence

# 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, 2010 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 1.911 million compared to SAR 2,370 million for 2009, a decrease by 19.4%. The drop in the Bank's profits resulted principally from the decrease in net special commission income, and from setting aside additional provisions in line with the Bank's conservative risk management culture to consolidate the Bank's financial position. Foreign exchange income increased by 24.2% while net special commissions income decreased by 8.6%, and net fees and commission income decreased by 3.2%.

Operating expenses (excluding provisions) reached SAR 1.644 million compared to SAR 1.601 million in 2009, representing an increase of 2.7% despite the existing inflation rates which are as much as twice this percentage. This reflects the success of the strict control over operating expenses despite the growth in business activities, transformation of branch network and the continued upgrade of IT infrastructure.

In line with the Bank's conservative risk management policy, provision for credit losses reached SAR 964 million compared to SAR 527 million in 2009, hence, non-performing loans coverage went up to 108% compared to 76% last year.

The Bank was able to offset the decline in its loan portfolio during the first half of 2010, as the loan portfolio amounted to SAR 66.203 million. A slight drop from SAR 66.811 million in 2009. The investments portfolio increased to reach SAR 32.841 million compared to SAR 23.261 million in 2009.

Customer deposits increased by 1.8% to reach SAR 84.199 million compared to SAR 82.680 million in 2009, while total assets increased by 5.2% to reach SAR 116.035 million by end of 2010 compared to SAR 110.297 million last year.

Total equity went up by 6.4% to SAR 15.291 million compared to SAR 14.369 million in 2009.

### Financial Highlights

	SAR in millions				
	2010	2009	2008	2007	2006
Loans and advances, net	66,203	66,811	74,662	61,122	49,747
Investments, net	32,841	23,261	28,228	21,025	18,292
Customer deposits	84,199	82,680	92,743	73,692	61,773
Shareholders' Equity	15,291	14,369	12,671	10,525	7,980
Total assets	116,035	110,297	121,307	94,468	78,035
Total liabilities	100,638	95,819	108,636	83,943	70,055
Total operating income	4,504	4,493	4,135	3,956	3,855
Total operating expenses	2,609	2,128	1,642	1,495	1,351
Net Income	1,911	2,370	2,486	2,461	2,505

### Geographical Analysis of Revenues

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

	SAR in thousands
Central Region*	2,701,118
Western Region	1,069,651
Eastern Region	733,012
	4,503,781

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

### Affiliates and Associates

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

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

#### Arabian Heavy Equipment Leasing Company

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



## Board of Directors



**Back Row:** Abdullah Ibraheem Silsilah / Dr. Robert Eid Managing Director / Salah R. Al-Rashed / Abdel Hamid A. Shoman / Ahmed A. Al-Akeil  
**Front Row:** Mohammed A. Alghanamah / Khaled M. Saad Albawardi / Abdullatif Hamad Al-Jabr Chairman / Rashid Saad Al-Rashid / Ghassan H. Tarazi

### 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

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

## Directors' Report

(continued)

### Saudi Home Loan Company (SHL)

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

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

### Dividend Distribution Policy

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

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

The Board of Directors proposed dividend distribution as follows:

	SAR' 000
2010 net income	1,911.089
Retained earnings from previous years	2,265.638
Total	4,176.727

Distributed as follows:

Transferred to statutory reserve	(480.000)
Zakat (including last year difference)	(341.090)
Dividend distribution (SAR 1 per share)	(650.000)
Retained earnings for 2010	2,705.637

Furthermore, the Board recommended to increase the Bank's capital to SAR 8,500 million by granting 4 bonus shares to every 13 shares held, through transfer of SAR 2,000 million from the retained earnings upon approval of the General Assembly.

### Future Plans

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

- Continuing branch network expansion and transformation
- Incorporate an insurance company
- Continuing upgrade of the Bank's information and communication systems that includes new system in administrative information, credit and various risk management systems.

### Principal activities

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

#### Retail banking

Deposit, credit and investment products for individuals.

#### Corporate banking

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

#### Treasury banking

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

#### Investment and brokerage services

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

#### Other

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

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance. The Bank's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London, UK. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Bank's overall consolidated financial statements.



The Bank's total assets and liabilities as at December 31, 2010, its total operating income, expenses and net income for the year then ended, by business segments, are as follows:

						SAR' 000
2010	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	Total
Total assets	25,070,493	45,635,351	42,424,352	33,678	2,870,891	116,034,765
Total liabilities	41,101,822	45,014,061	14,123,932	37,049	361,217	100,638,081
Total operating income	2,170,357	1,252,973	537,699	95,078	447,674	4,503,781
Total operating expenses	1,290,148	1,148,724	76,866	79,243	13,898	2,608,879
Share in earning of an associate	-	-	-	-	12,600	12,600
Loss attributed to non-controlling interest	-	-	-	-	3,587	3,587
Net income for the year	880,209	104,249	460,833	15,835	449,963	1,911,089
Provision for credit losses, net	54,918	907,324	-	-	2,165	964,407
Investment in an associate	-	-	-	-	327,249	327,249
Depreciation and amortization	185,561	4,038	2,347	11,041	1,869	204,856
Impairment of financial assets	-	3,275	42,105	-	23,153	68,533

#### Risks encountered or may be encountered by the Bank

##### Risk Management

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

##### 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.

##### Market risk

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

##### Operational Risk

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

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

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

Article	Procedure	Reasons
Six	Voting on selection of Board members in the General Assembly should be through accumulative voting method.	The Bank's Articles of Association include the normal voting right.
Fifteen	The General Assembly issued – based on recommendation of the Board- the rules governing the selection of the Nomination and Compensation committee, duration of membership and its terms of reference.	Since the committee was formed after the General Assembly meeting, this issue will be presented in its next meeting expected in the first quarter of 2011.

#### 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.

## Directors' Report (continued)

### Board of Directors

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

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

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

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

Board members at December 31, 2010 appointed by Arab Bank are Abdel Hamid A. Shoman, Mohammed A. Alghanamah, Ghassan H. Tarazi and Dr. Robert Eid (Managing Director).

The Board of Directors as at December 31, 2010 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 (non-executive)
9-	Mohammed A. Alghanamah	Board member (non-executive)
10-	Ghassan H. Tarazi	Board member (non-executive)

Four regular Board meetings were held during 2010. Below is the attendance record:

Date	Attendance record	Number of attendees
<b>March 21, 2010</b>	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.	9
<b>May 23, 2010</b>	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.	10
<b>September 26, 2010</b>	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.	9
<b>December 19, 2010</b>	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.	10

#### 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
Abdullatif Al-Jabr	- Okaz Organization for Press and Publication - Al Shamila Al Arabiyya Printing Press Co. - Golden Chip Company
Salah Rashed Al-Rashed	- Arriyadh Cement Co. - White Cement Company - Al-Yamamah Investment and Installment - Tech Invest Com
Ahmed Abdullah Al-Akiel	- Southern Province Cement Co. - Sanad Cooperative Insurance Co. - Aldrees for Petroleum Services and Transportation - Al-Yamamah Investment and Installment
Khaled M. Saad Albawardi	- Arab Paper Manufacturing Co. - Basic Chemical Industries Co. (BCI)
Abdel Hamid A. Shoman	- Arab Bank PLC - Arab Bank Europe Ltd. - Arab Bank (Switzerland) Ltd. - Oman Arab Bank
Robert Eid	- Saudi Home Loans Company (SHL)

#### 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 2010, the executive committee held 19 meetings. This Committee is responsible for implementing Bank's policy, monitoring business performance, managing risks and ensuring the effectiveness of internal controls, approving sizable capital expenditure.

During 2010 the executive committee comprised Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Saad Albawardi and Mohammed A. Alghanamah .

#### Nominations and Compensation Committee

During 2010, Nominations and Compensation Committee was formed, comprises of three non-executive members of the Board; Khaled M. Saad Albawardi (Chairman) , Salah Rashed Al-Rashed and Ahmed Abdullah Al-Akiel. The committee has the authority to review and amend ANB's compensation policy and practices and recommend the same to the Board for its approval. The committee also reviews the level and composition of remuneration of key executives of the Bank, and recommend risk- adjusted bonus pool to the Board for approval. The committee functions also include nomination to Board membership, review the Board structure and determine strengths and weaknesses therein and propose remedy in line with the Bank's interests. The committee held 4 meetings in 2010.

Annual remunerations and compensations to non-executive Board members amounted to 2,280 thousand Riyals and 240 thousand Riyals for executive members, and allowances to non-executive Board members amounted to 315 thousand Riyals and 69 thousand Riyals for executive members. Compensations to non-executive Board members amounted to 528 thousand Riyals including travel and accommodation expenses. Salaries to senior executives including CEO and CFO amounted to 15,451 thousand Riyals while their allowances and compensations reached 4,714 thousand Riyals and their annual remunerations reached SAR 14,084 thousand Riyals while their incentive plans reached 900 thousand Riyals. Remunerations to the audit committee amounted to 270 thousand Riyals and their attendance allowances reached 45 thousand Riyals.

## Directors' Report (continued)

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

The Committee is comprised a board member and two independent non-executive directors. The Committee met six times during 2010. 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 2010, the Audit Committee comprised Mr. Ghassan Tarazi (Chairman), Mr. Rashed Saleh Al-Bakar and Mr. Othman M. Al-Tuwaijri.

### 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 in relation to business performance. The systems in place were designed to manage, rather than to eliminate the risks of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses or fraud.

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

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

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

- Authority to manage the businesses of the Bank is delegated to the Managing Director within limits set by the Board of Directors. There are bank-wide policies, procedures and manuals in place covering financial controls, business processes, information security, credit policy and compliance with regulatory and legislative requirements. Additionally, delegated limits apply to all transactions and risk positions to ensure that exposures are controlled. The accountabilities of key managers are designed to ensure appropriate segregation of duties.
- In each of the key business areas, regular independent checks are made on operating performance and customer service to ensure that control procedures are being observed.
- Systems and procedures are in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational errors and fraud. Exposure to these risks throughout the Bank is monitored by each of the Operational Risk Steering Committee, the Asset and Liability Committee ("ALCO"), Market Risk Policy Committee (MRPC) and the Bank Senior Credit Committee. These exposures are also monitored by the Executive Committee.
- Risk assessments are also completed as part of all project appraisals, and risk is considered within the budget and business planning exercises, which are reviewed and approved by the Board of Directors.
- There is a system of financial reporting to the Board of Directors based on an annual plan, with 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](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 2010, 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+

### Bank Shares Ownership Percentages (shares in thousands)

#### 1-Arab Bank PLC

At beginning of year 01/01/10		Change During the year*		At end of year 31/12/10	
No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
260,000	40.00	No change	No change	260,000	40.00

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 on the Board.

#### 2-Major Shareholders other than Board Members

Name	At beginning of year 01/01/10		Change During the year*		At end of year 31/12/10	
	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
Al-Jabr Trading Company	36,752	5.65	No change	No change	36,752	5.65
Abdul Rahman Al-Rashed and Sons Co.	64,796	9.97	No change	No change	64,796	9.97

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

Name	At beginning of year 01/01/10		Change During the year*		At end of year 31/12/10	
	No. of shares*	Ownership %	No. of shares*	Ownership %	No. of shares*	Ownership %
Abdullatif Hamad Al-Jabr	69.3	0.01	No change	No change	69.3	0.01
Rashid Saad Al-Rashid	7,641	1.18	No change	No change	7,641	1.18
Salah Rashed Al-Rashed	2.6	0.00	No change	No change	2.6	0.00
Ahmed Abdullah Al-Akeil	152.4	0.02	No change	No change	152.4	0.02
Abdullah Ibraheem Silsilah	36.9	0.006	No change	No change	36.9	0.006
Khaled M. Saad Albawardi	38.6	0.006	- 16.9	0.003	21.7	0.003
Ali Ahmed Abdullah Alholaily	10.4	0.00	-10.4	0.00	0.00	0.00
Asad Abdullah Hashem Alsadah	9.7	0.00	No change	No change	9.7	0.00

\* Board members' shares include wives and minor children.

### Statutory Payments

	SAR in Millions
Zakat attributable to Saudi shareholders	204.7
Income tax payable by the non Saudi shareholders	156.7
Withholding tax	23.0
General Organization of Social Insurance	38.8

### Penalties and Regulatory Restrictions

The Bank paid a penalty of SAR 100,000 to the Capital Market Authority for the Bank's violation of sub-item (5) of item (B) of article twenty five and sub-item (7) of item (B) of article twenty seven of the Registration and Enlistment Rules of CPA. The Bank was not subject to any other material penalty or fine.

### Human Resources

Total number of staff at the end of 2010 was 3,495, compared to 3,450 at the end of 2009. The Saudization ratio at the end of 2010 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 6.8 million during 2010.

### 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 21, 2010, 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 2010.

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

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

- ANB has properly maintained its accounting records
- The internal control system was properly prepared and effectively implemented.
- There is no doubt that ANB has the resources to continue in business.

### Board of Directors

14 February 2011

## Business Review



**Thankfully, the strong fundamentals of the Saudi Arabian economy made it possible to overcome the many intricacies and fears that overshadowed the business environment throughout 2009.**

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

Undoubtedly, the wise and prudent spending policy of the Saudi Arabian government was a primary contributor to acceleration of the business momentum and return to a climate of trust.

Notwithstanding the more benign business environment, caution continued to dominate economic activity in 2010 due to the persistence of the uncertainty in the global markets, on the other hand, and to the slow return to normality in the local market, on the other hand. Briefly stated, 2010 is the year of regained confidence, albeit cautious, in the economy.

### **Retail Banking Segmentation**

ANB continued to develop its customer segmentation programs as part of its efforts to retain and further expand its customer base. Product and services bundling remained an effective method of expanding the bank's penetration of higher value retail business. As a result of its robust segmentation initiative, ANB successfully positioned itself as a pioneer in the rapidly changing Saudi retail banking market.

### **Delivery Channels**

ANB's relationship with Saudi Home Loans means that it can quickly capitalize on the great growth potential of mortgage lending in the Kingdom.

Thanks to a convergence of technologies, alternate delivery channels are providing an increasingly valuable 24/7 service for customers, and mobile phone banking integration with internet services continue to provide high value, low-cost services to increasingly sophisticated customers.

ANB's branch network expansion program continued in 2010 with a number of new additions:

- two new men's branches.
- 13 new TeleMoney centers
- four new sales centers
- four new ladies' sections
- 26 ATMs.

### **Corporate Banking**

One of the lasting effects of the global economic downturn of 2009 was the increased caution and vigilance, which the bank continues to apply to new business, even as the recovery takes hold. ANB takes a very balanced approach to writing new business, ensuring that it supports infrastructure development projects in the Kingdom and the overall business requirements of its valued customers .

ANB has managed its corporate portfolio wisely and effectively in a very challenging environment. It continues to pursue a strategy of strengthening and diversifying its relationships with top-tier corporates in the Kingdom. Income streams have been expanded as a result of the broad range of quality products and service offerings in the areas of cash management, trade finance, foreign exchange, Islamic banking and project and structured finance.

### **International Contracting**

This specialized unit operates in the Kingdom and focuses on delivering ANB banking products and services to international clients in the US, Europe and the Far East.

The main strategy of the unit is to explore opportunities for lucrative business as the Kingdom continues its program of investment in infrastructure and services.



### Commercial Banking

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

The unit actively supports the small businesses operating in the Kingdom with dedicated and specialized teams in each region. It has been an active player in working to extend facilities under the 'Kafala' scheme that SIDF introduced and which SAMA supports. The unit is well positioned to seize the opportunities offered 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. In 2010, a range of finance, investment, and hedging products was 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. The Shariaa board reviewed compliance reports and approved a number of new products.

**Training:** During 2010, more than 559 bank employees were trained in Islamic banking and ANB's Shariaa-compliant products.

**Branch conversion:** This year, eight outlets were either opened or converted from conventional banking to dedicated Islamic branches. In total, 97 branches, including 21 ladies' sections, representing 56% of ANB's retail branch network, are now dedicated to providing Shariaa-compliant products and services.

### Treasury

Treasury achieved a strong performance in 2010 by pursuing a conservative asset building strategy on its investment portfolio, coupled with active interest rate management. Treasury has also had considerable success in its trading and cross-selling activities. During the year it completed its infrastructure building process to support cross-selling and the further development of client-driven business. It is now actively offering new Treasury products that are tailored to meet customer requirements.

Looking ahead, Treasury will be expanding its activities into broader areas of the market and concentrating on its diversification and asset preservation strategy.

### London Branch

London Branch continues to play a key role in supporting the international business interests of the bank's clientele, particularly within the UK and the rest of Europe.

A growing number of customers benefit from dedicated personalized services when buying properties in the UK, and seasonal visitors to London are also able to take advantage of a wide range of services. Bespoke services are available to corporate entities of varying sizes and business activities, including credit facilities where needed.

The branch serves as a vital listening post for the bank in London, the world's leading international financial centre, and provides ANB with the intelligence needed on evolving topics of relevance.

## Business Review (continued)

### Strategic Investments

During the course of the year ANB, continued the roll-out of its strategic investments comprising of four core subsidiaries:

- Saudi Home Loan – a specialist provider of Islamic home loan financing solutions – where ANB holds a 40% stake
- Arabian Heavy Equipment Leasing Company – providing specialist operating leases to major contractors – where ANB holds a 62.5% stake
- A specialist life and general insurance company – under formation and soon to be subject to an IPO – where ANB will hold a 30% stake.
- ANB Invest – The investment banking arm of ANB

### Saudi Home Loans

Saudi Home Loans (SHL) had an excellent year. The business is now the established market leader in this promising sector and it continues to perform strongly. The business outperformed its profit targets, despite a very conservative approach to building its portfolio. We are confident that 2011 will be a year of further significant achievement.

### Arabian Heavy Equipment Leasing Company

Arabian Heavy Equipment Leasing Company (AHEL) began effective operations in early 2010. The market for cranes was subdued for 2009 and the early part of this year. However, there has been a significant up-turn in demand in H2 and assets were successfully deployed across a range of sectors. AHEL continues to build its capacity and mobilization capabilities and there is significant potential for growth in 2011.

### Bank Assurance

ANB's commitment to the original joint venture arrangements with the former AIG Group remains in place. Progress toward mobilization was inevitably slowed by the impact of the 2008-09 economic crisis on AIG. AIG has benefited from the general recovery and ANB is now pursuing an alliance with two successor institutions – ALICO/Met Life in the life segment and Chartis in the general insurance segment. We anticipate full launch in Q3 of 2011.

### ANB Invest

ANB Invest's third year was one of challenges on the revenue front, but successes on the cost side. While the reduced value of volumes traded on Tadawul had a negative impact on the Company's revenues, profitability was sustained by prudent cost management. Other improvements included ongoing re-registration of the accounts of the customers and reorganization of the back office procedures for better operating efficiencies. Despite difficult markets conditions, several of the Company's mutual funds had particularly good returns with performances significantly over their benchmarks. In such regard, the Company's Al-Mubarak Global Equity Fund won the 2010 Lipper Fund Award as the best performer in its class, based on a three-year cumulative return.

### Risk Management

ANB's Risk Management Group (RMG) provides the bank with an independent and centralized risk management function. Its role is to maintain the balance between risk and return, in line with the bank's strategic objectives. RMG is also responsible for implementing the Basel-II capital adequacy requirements. Its activities cover five 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.
- Enhances market risk management tools and techniques to meet the requirements of the Basel II internal models approach.

#### Operational risk

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

#### Business continuity

- Develops business continuity policy and procedures for the bank, in compliance with industry standards.
- 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.
- Disseminates awareness and understanding of business continuity to the staff of the bank.

#### 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.

### **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 2010 mean that we remain vigilant and continue to emphasize the value of our prudent approach to risk.

### **Compliance**

The focus of Corporate Governance activity this year was on reporting results with transparency and accuracy and on adhering to the laws and regulations which govern the businesses. An updated code of ethical behaviour for the bank was issued, with all employees signing their agreement with the new code. To comply with international best practice and the SAMA compliance manual, the creation of a compliance committee was approved by the board and regular meetings are now held to discuss compliance matters. All branch and front office staff, including operation, completed the compliance and AML e-learning awareness program and passed the test.

### **Information Technology**

2010 was a significant year for information technology at ANB. Its new data centre, located in the head office building, has been largely completed. The new Treasury system for front and back-office—Murex—was also implemented, together with the new Oracle Hyperion financial analysis system, which replaces an older financial application. In other achievements, ANB replaced an aging non-Shariaa compliant loan origination application with a new branch-based application for selling Shariaa compliant loans, the Consumer Finance Origination System. ANB is also pleased to announce the successful completion of the SAMA-mandated 2-factor customer authentication and debit card management system, which is the final component of the new SPAN 2 system of SAMA, allowing full support of EMV (smart chip) cards.

### **Human Resources**

Human Resources continued to work as a strategic business partner during the year. It delivered functional and professional support to the business-generating units of the bank and used its expertise to ensure that the bank retained its competitive edge in resource and compensation management. The Human Resources Group plays a key role in setting standards for consistent ethical values and integrity that the rest of the bank follows. In support of the bank's Saudization drive, Human Resources continued to attract talented graduates from highly regarded local and international universities to its well-known Trainees Management and Branch Network New Recruits Orientation Programs.

# Auditors' Report

## To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the statement of consolidated financial position as at December 31, 2010, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41, other than note 39, and the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

## Ernst & Young

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**Ehsan A. Makhdoum**  
Certified Public Accountant  
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14 February, 2011  
(11 Rabi Awal 1432H)

## Financial Statements

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