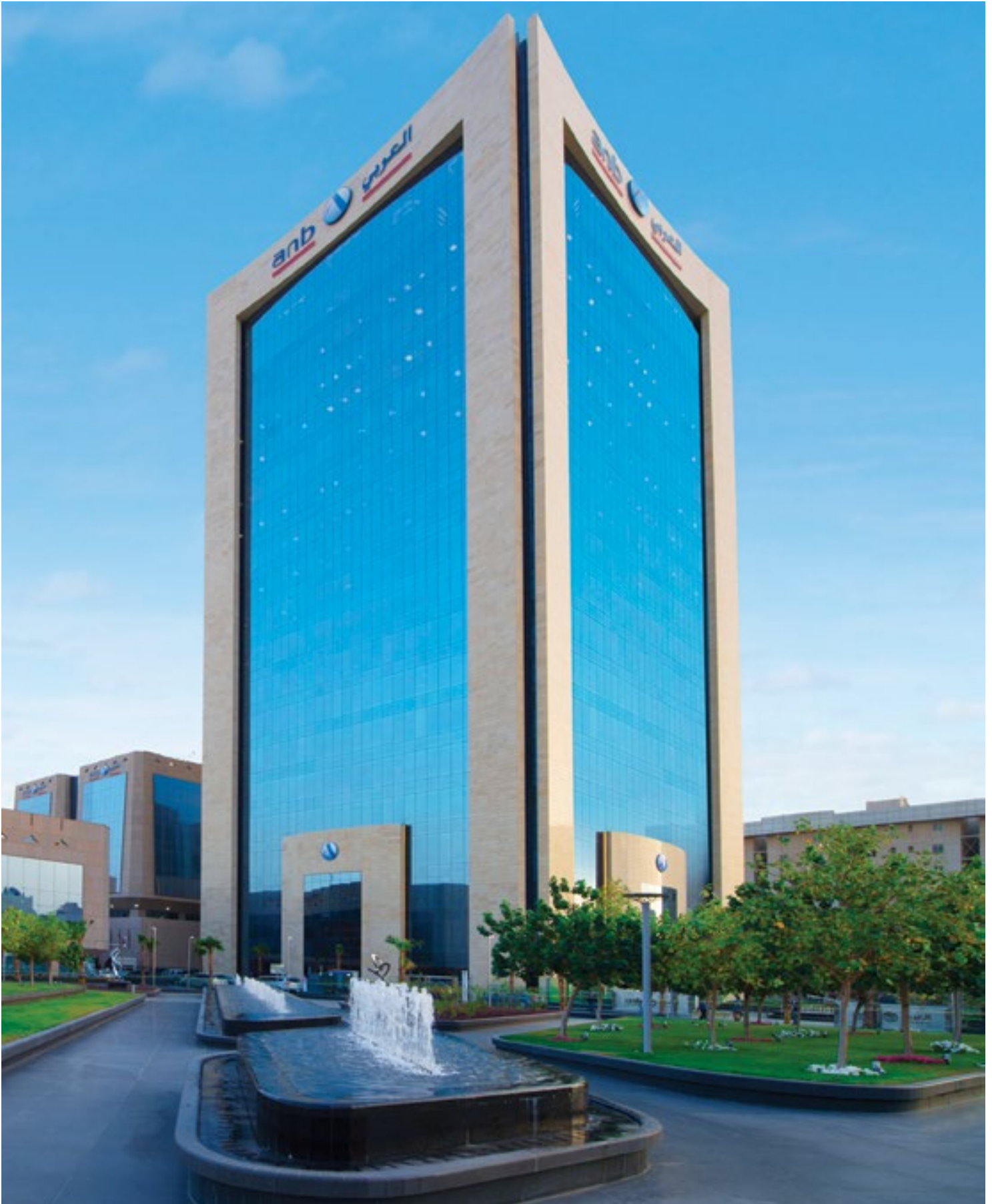


Arab National Bank
Annual Report 2015



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



ANB NEW HEAD-QUARTER BUILDING IN RIYADH

ANB OFFERS A FULL RANGE OF COMMERCIAL AND ISLAMIC PRODUCTS AND SERVICES TO THE RETAIL AND CORPORATE SECTORS, INCLUDING FOREIGN EXCHANGE, TREASURY AND INVESTMENT SERVICES. THE BANK'S WHOLLY OWNED SUBSIDIARY (ANB INVEST) OFFERS FINANCIAL ADVISORY, INVESTMENT, WEALTH, MUTUAL FUNDS AND ASSET MANAGEMENT AND LOCAL AND INTERNATIONAL EQUITY TRADING SERVICES. ANB'S JOINT VENTURE WITH AIG AND METLIFE-ALICO OFFERS GENERAL AND PERSONAL LINES OF INSURANCE PRODUCTS.

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THE CUSTODIAN OF THE TWO HOLY MOSQUES
KING SALMAN BIN ABDUL AZIZ AL SAUD



DEPUTY CROWN PRINCE, MINISTER OF DEFENSE
PRINCE MOHAMMAD BIN SALMAN AL SAUD



CROWN PRINCE, DEPUTY PRIME MINISTER
PRINCE MUHAMMAD BIN NAYEF BIN ABDUL AZIZ AL SAUD

Chairman's Message



Salah R. Al-Rashed
Chairman

On behalf of the Board of Directors, it gives me great pleasure to present the annual report and closing accounts of Arab National Bank for the year ended December 31, 2015.

Against the backdrop of sharply falling oil prices and the ensuing challenges posed to the economy, the Bank exhibited a resilient financial performance in 2015. Net income reached SR 2.96 billion, compared to SR 2.88 billion in 2014, a 3.1% growth. The balance sheet stood at SR 170.4 billion by end-2015, compared to SR 164.7 billion in 2014.

While continuing with a vigilant and balanced approach to writing new business, the Bank grew its loan book to reach SAR 115.1 billion in 2015, up SAR 11.4 billion from the previous year. This conservative approach to managing credit risk ensures consistent and predictable earnings are achieved. In parallel, customer deposits grew from SAR 129.6 billion to reach SAR 135.7 billion by end-2015.

The focus on building long-term sustainable relationships with SMEs resulted in an increase of over 20% in the loan book during the year. This was achieved through the use of 10 SME centres across the Kingdom, staffed by dedicated specialists offering tailored products covering the specific lending, account services and transactional banking requirements of the segment.

In addition to growing the number of retail branches, a significant investment has been made in developing alternate channels with over

90% of financial transactions now being executed outside the branch network. This ensures that customers have timely and convenient access to the products and services that they require.

The Board takes its responsibilities very seriously with regard to risk management, compliance and corporate governance by both setting the correct tone and by ensuring that a zero-tolerance approach is adopted to any unacceptable practices or behaviors.

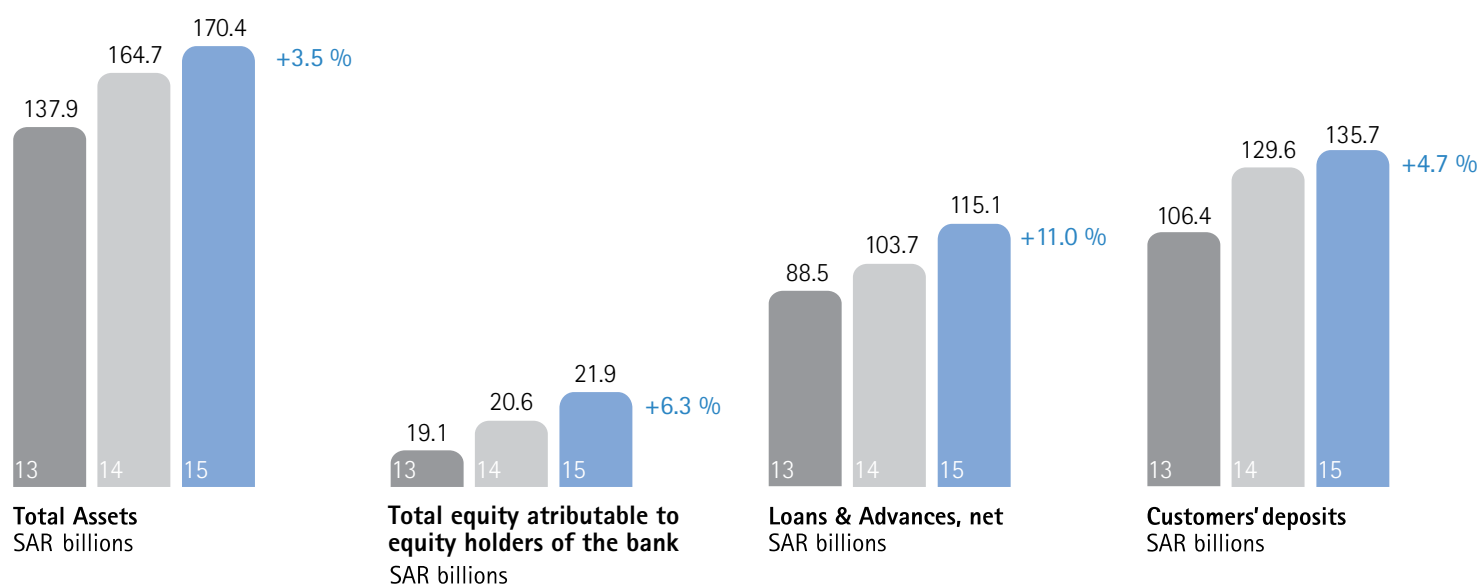
I would like to express my thanks and gratitude, and that of my fellow directors, to the Custodian of the Two Holy Mosques, HRH the Crown Prince, HRH the Deputy Crown Prince, the Minister of Finance, the Governor of the Saudi Arabian Monetary Agency and the Chairman of the Capital Market Authority for their continued efforts in supporting the banking sector and the economy at large.

The Bank strives for strong and beneficial relationships with all stakeholders and expresses its sincere appreciation for their trust and support.

Finally, I pay tribute to the efforts and achievements of the Bank's employees whose commitment, dedication and contribution are fundamental to the success of the Bank. I am greatly encouraged by what we can achieve in the years to come.

Salah R. Al-Rashed
Chairman

Financial Highlights



SAR Millions	2015	2014	2013	2012	2011
Net Commission income	3,845	3,623	3,375	3,260	3,181
Net Income Before Provisions for credit losses	3,621	3,426	3,149	2,893	2,789
Net Income attributed to equity holders of the Bank	2,964	2,875	2,522	2,371	2,171
Expense to Revenue Ratio	39.2%	38.3%	39.6%	40.5%	39.4%
Return on Assets (ROA)	1.8%	1.9%	1.8%	1.9%	1.9%
Return on Equity (ROE)	14.0%	14.5%	13.7%	13.8%	13.6%
Investments	33,239	33,876	28,248	24,323	26,082
Loans and Advances, net	115,144	103,724	88,456	86,329	72,844
Total Assets	170,421	164,668	137,935	136,639	117,574
Customers Deposits	135,687	129,631	106,373	107,560	87,859
Total Equity attributed to equity holders of the Bank	21,894	20,601	19,080	17,804	16,624



Best Retail Bank
Saudi Arabia 2015

A

Fitch Ratings

A¹

Moody's

A

Standard and Poor's

Director's Report

Directors' Report for the financial year ended December 31, 2015

To: The Shareholders of Arab National Bank

The Board of Directors (the Board) is pleased to submit Arab National Bank's Annual Report for the financial year ended December 31, 2015.

Introduction

Arab National Bank (the Bank), a Saudi Joint Stock Company, was incorporated pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank's Head Office is located in Riyadh and it operates through 153 branches in the Kingdom of Saudi Arabia (the Kingdom) 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 2015 financial year amounted to SAR 2,964 million compared to SAR 2,875 million in 2014, an increase of 3.1%. Net special commission income increased by 6.1% to SAR 3,845 million compared to SAR 3,623 million in the previous year, while fees and commission income decreased by 2.3% to SAR 1,286 million from SAR 1,317 million in 2014. This resulted in total operating income increasing by 6.4% from SAR 5,508 million in 2014 to SAR 5,863 million in the current financial year.

Operating expenses before provisions totalled SAR 2,243 million compared to SAR 2,107 million in 2014, representing an increase of 6.5 %. The Bank continued to adopt conservative risk management policies to ensure it has sufficient provision coverage. Provision charge for credit losses was SAR 657 million compared to SAR 551 million in 2014 resulting in a non-performing loans coverage ratio of 225% as at December 31, 2015.

The Bank's loan portfolio ended the year at SAR 115,144 million compared to SAR 103,724 million in 2014 and its investment portfolio decreased to SAR 33,239 million from SAR 33,876 million in 2014, an increase of 11.0% and a decrease of 1.9% respectively.

Total assets and customer deposits as at December 31, 2015 amounted to SAR 170,421 million and SAR 135,687 million respectively.

Equity attributable to equity holders of the Bank was SAR 21,894 million compared to SAR 20,601 million in 2014, an increase of 6.3%.

Financial Highlights

SAR millions					
	2015	2014	2013	2012	2011
Loans and advances, net	115,144	103,724	88,456	86,329	72,844
Investments, net	33,239	33,876	28,248	24,323	26,082
Customers' deposits	135,687	129,631	106,373	107,560	87,859
Shareholders, Equity	21,894	20,601	19,080	17,804	16,624
Total assets	170,421	164,668	137,935	136,639	117,574
Total liabilities	147,789	144,029	118,747	118,730	100,845
Total operating income	5,863	5,508	5,110	4,757	4,541
Total operating expenses	2,944	2,658	2,621	2,414	2,393
Net Income	2,964	2,875	2,522	2,371	2,171

Geographical Analysis of Revenues

The Bank's revenues are earned mainly through its activities in the Kingdom and are distributed as follows:

SAR '000	
Central Region*	3,803,005
Western Region	1,246,455
Eastern Region	813,069
Total	5,862,529
*Includes London branch revenues (not disclosed separately due to it being immaterial to the Bank as a whole).	

Subsidiaries and Associates

Arab National Investment Company (ANBI)

The Bank established a wholly owned subsidiary ANBI, a Saudi closed joint stock company, registered in the Kingdom under commercial registration No. 1010239908 issued on Shawal 26, 1428H (corresponding to November 7, 2007). The subsidiary's authorized and issued capital is SAR 400 million (40 million shares), and its objective is to manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority (CMA). The subsidiary commenced operations on Muharram 3, 1429H (corresponding to January 12, 2008). On Muharram 19, 1436H (corresponding to November 12, 2014) the subsidiary changed its legal structure from a limited liability company to a closed joint stock company.

Director's Report



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

Shareholders

Saudi Shareholders 60%
Arab Bank Plc 40%

Executive Committee

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

Nomination & Compensation Committee

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

Audit Committee

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

Strategy Committee

Rashid Saad Al-Rashid - Chairman
Nemeh Sabbagh
Hesham Abdulatif Al-Jabr
Nader Hassan Al Amri
Dr. Robert Eid

Director's Report

Arabian Heavy Equipment Leasing Company (AHEL)

A 87.5% owned subsidiary incorporated in the Kingdom as a Saudi closed joint stock company under commercial registration No. 1010267489 issued in Riyadh on Jumada I 15, 1430H (corresponding to May 10, 2009). The company's authorised capital is SAR 1,000 million representing 100 million shares with a nominal value of SAR 10 per share. The issued and paid in capital amounted to SAR 300 million (30% of the company's authorised capital). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to 87.5%.

Saudi Home Loan Company (SHL)

A 40% owned associate incorporated in the Kingdom as a Saudi closed joint stock company under commercial registration No. 1010241934. The company's authorised capital is SAR 2,000 million representing 200 million shares with a nominal value of SAR 10 per share. The issued and paid in capital amounted to SAR 800 million (40% of the company's authorised capital). SHL is a specialized Islamic home and real estate finance company with all its products and services being fully Shari'ah compliant. The company commenced its business in the fourth quarter of 2007 and is equity accounted.

MetLife – AIG – ANB Cooperative Insurance Company

During 2012, the Bank participated in setting up a Saudi joint stock company registered in the Kingdom under commercial registration No. 1010391438. The company's authorized and issued capital is SAR 175 million representing 17.5 million shares with a nominal value of SAR 10 per share. The Bank owns 5.25 million shares (30%) at a nominal value of SAR 10 per share.

In accordance with cooperative insurance company Regulations, the company's executive bylaws and the laws effective in the Kingdom, the company will transact in cooperative insurance operations and related activities. Its principal lines of business include individual and group life, accident, health and all classes of general insurance. The company completed the legal formalities for incorporation on August 29, 2013, and its shares were listed on the Saudi Arabian Stock Exchange (Tadawul) on Muharram 23, 1435H (corresponding to November 26, 2013). The Saudi Arabian Monetary Agency (SAMA) has provided the company with final approval to conduct insurance business in the Kingdom on February 25, 2014. The company commenced its insurance operations during April 2014 and is equity accounted.

On April 27, 2015, the company's Board of Directors recommended increasing the company's capital from SAR 175 million to SAR 350 million through a rights issue. In this connection, the company submitted its business plan along with related documents to SAMA on June 7, 2015 for approval. SAMA subsequently approved the capital increase on August 31, 2015. The company submitted the required documents to the CMA on November 15, 2015 and obtained the Authority's approval on January 19, 2016.

Arab Insurance Agency

A wholly owned subsidiary incorporated in the Kingdom during 2013 as a limited liability company under commercial registration No. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The company's capital amounts to SAR 500,000 consisting of 50,000 parts at a nominal value of SAR 10 per part. The agency obtained its license from SAMA to start its activities on Jumada AL-Awla 5, 1435H (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned subsidiary, registered in the Kingdom as a limited liability company under commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H. The company's capital amounts to SAR 1 million consisting of 10,000 parts (at a nominal value of SAR 100 per part). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

ANBI Business Gate Fund (the Fund)

The Bank indirectly owns 25.47% of the Fund, which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from date of closure of first offering on January 11, 2015. CMA has been informed of the offering of the Fund through letter number 8/14/411 dated Shawal 9, 1435 H (corresponding to August 5, 2014). The Fund's purpose is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term. The fund's total shareholding reached SAR 950 million divided to 950,000 units and each unit value is SAR 1,000. The Group has significant aggregate economic interest in the Fund and manages the Fund through an agreement between Arab National Investment Company (the "Fund Manager") and the Fund Investors (the "Unitholders"). As a result, management has concluded that the Group has effective control of the Fund and started consolidating the Fund's financial statements effective December 31, 2015, (the date of effective control).

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

Dividend Distribution Policy

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

- 1- In accordance with SAMA's requirements, a minimum of 25% of the Bank's annual net income is required to be transferred to a statutory reserve until such reserve equals the Bank's paid up capital;
- 2- The Board periodically reviews and analyzes the Bank's financial position, capital adequacy and growth projections. Accordingly, it proposes to the General Assembly whether to distribute dividends or not;
- 3- If the General Assembly decides to distribute a dividend, it will be distributed to shareholders in proportion to their shareholdings held at the eligibility date as per the dividend announcement;
- 4- The Board may also decide to distribute an interim dividend based on the Bank's financial position; and
- 5- Non-distributed earnings are transferred to the next year or to the general reserve.

The Board proposed a dividend distribution as follows:

	SAR '000
2015 net income	2,964,417
Retained earnings from previous years	1,782,481
Total	4,746,898
Distributed as follows:	
Transferred to statutory reserve	(742,000)
Gross dividend distribution –Interim and proposed	(1,494,952)
Retained earnings for 2015	2,509,946

Director's Report

Future Plans

Management is in the process of executing the following initiatives as part of the Bank's strategy:

- Continuing the branch network expansion and transformation;
- Continuing to upgrade the Bank's information and communication systems; and
- Introducing additional specialized centres to serve medium and small enterprises Kingdom wide.

Principal activities

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

Manages the Bank's trading and investment portfolios and its funding, liquidity, currency and commission rate risks;

Investment and brokerage services

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

Other

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

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

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

The Bank's total assets and liabilities as at December 31, 2015 and its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

2015	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	39,172,737	81,990,562	44,489,280	1,703,519	3,065,175	170,421,273
Investments in associates	-	-	-	-	531,617	531,617
Total liabilities	66,465,039	72,640,878	8,024,993	171,055	487,455	147,789,420
Fee and commission income, net	509,314	558,199	12,648	94,800	110,963	1,285,924
Total operating income	2,371,698	2,235,071	853,216	140,888	261,656	5,862,529
Total operating expenses	1,760,842	882,388	133,557	83,842	82,924	2,943,553
Share in earnings of associates, net	610,856	1,352,683	719,659	57,046	224,173	2,964,417
Gain attributed to non-controlling interest	-	-	-	-	37,500	37,500
Net income attributed to equity holders of the Bank	-	-	-	-	7,941	7,941
Impairment charges for credit losses, net	285,495	371,412	-	-	-	656,907
Depreciation and amortization	122,313	2,151	3,508	4,002	67,349	199,323

Director's Report

Risks encountered or that could potentially be encountered by the Bank

Risk Management

The Bank's Risk Management Group (RMG) provides an independent and centralized risk management function to ensure the best balance between risk and return is achieved in line with the Bank's strategic objectives. The Bank is mainly exposed to the following risks:

a- Credit risk

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

b- Market risk

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

c- Operational Risk

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

Corporate Governance in the Kingdom of Saudi Arabia

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

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

Governance Message

Rational governance, along with adherence to the rules and regulations in force, represents an essential element directing ANB activities and operations. The Bank has instilled the rational management culture which ensured adherence to honesty and integrity, whereas the Board leads by example and management strives to have full commitment to regulations to the letter and spirit.

The Bank's philosophy is based on following the best practice of corporate governance, in addition to adherence to the regulatory stipulations of all the countries of its operations. Further, the Bank adheres to the corporate

governance issued by the Saudi Arabian Monetary Agency, Capital Market Authority and the Companies Act issued by the Ministry of Commerce and Industry in the Kingdom of Saudi Arabia.

Debt securities and sukuk

a- During the year ended December 31, 2006, the Bank issued USD 500 million 10 year subordinated floating rate notes (the notes) under its USD 850 million EMTN program. The notes initially carried 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 their date of issuance.

During the year ended December 31, 2009, USD 50 million was purchased from the secondary market and retired.

Effective October 31, 2011 and based on the step-up condition, the commission rate has been adjusted to Libor plus 133 bps.

On October 31, 2015 the Bank exercised its call option to early redeem 100% of the principal amount of outstanding notes, together with the accrued interest till the option redemption date.

b- On October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carry a special commission rate of SIBOR plus 140 bps.

Share Capital

During the year ended December 31, 2014, 150 million bonus share of SAR 10 each were issued after approval of the shareholders at their extraordinary general assembly meeting held on March 17, 2014.

As at December 31, 2015, the Bank has 1,000 million shares of SAR 10 each issued and outstanding.

Board of Directors

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

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

The nominated Board members should possess professional skills, financial expertise, suitable qualifications and personal qualities. Further he should be of good reputation, integrity, competency, accountability and ability to carry out his duties and responsibilities as a Board member. It is essential that prior to his appointment, the nominated Board member should complete the Fitness Form issued by SAMA where the Bank obtains no-objection letter from SAMA to assure his fitness and integrity. In addition, the Bank may assure his suitability through the Saudi Credit Bureau (SIMAH) for any defaults related to the nominated Board member (this applies to the evaluated members).

The Board has a clearly documented schedule of meetings and an agenda of key discussion points that include the agreement of strategy, budgets, major capital expenditures, policies covering treasury, credit and other

Director's Report

business units, the annual internal audit plan and authority levels for expenditure. All Directors have full and timely access to relevant information through the Company Secretary. They may also opt for independent professional advice at the Bank's expense where needed to discharge their responsibilities.

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

Board members as at December 31, 2015 that were appointed by Arab Bank PLC were Nemeh Sabbagh, Mohammed A. Alghanamah, Riyad Burhan Tahir Kamal and Dr. Robert Eid (Managing Director).

As at December 31, 2015, the Board consisted of the following members:

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

* According to the CMA definition of independency.

** Effective 1/1/2016, Mr. Ahmed Wazi Al Gahtani was appointed a member of the Board (representing the General Organization of Social Insurance - GOSI) to replace Mr. Nadir Hassan Alamri who resigned from Hasana company which is owned by GOSI.

Four regular Board meetings were held during 2015 and were attended as follows:

Date	ATTENDANCE RECORD	No. of attendees
March 16, 2015	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Nadir Hassan Alamri, Nemeh Sabbagh, Mohammed A. Alghanamah and Riyad Burhan Tahir Kamal.	10
June 23, 2015	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Nadir Hassan Alamri, Mohammed A. Alghanamah and Riyad Burhan Tahir Kamal.	9
September 16, 2015	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Nadir Hassan Alamri, Nemeh Sabbagh and Mohammed A. Alghanamah.	9
December 8, 2015	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Nadir Hassan Alamri, Nemeh Sabbagh, Mohammed A. Alghanamah and Riyad Burhan Tahir Kamal.	9

Directors' membership on the Boards of other Saudi joint stock companies

Directors who were board members in other Saudi joint stock companies as at December 31, 2015 were as follows:

Director	Director
Salah Rashed Al-Rashed	- White Cement Co. - Tech Invest Co. - Saudi Services for Electro Mechanic Works Co - Golden Chicken Farms Co. - Care and Science Medical Company Limited - Al-Rashed Trade and Contracting Company - Al-Rashed Abetong Co.
Rashid Saad Al-Rashid	- Al-Rashed Trade and Contracting Company - Al-Rashed Abetong Co. - Saudi Services for Electro Mechanic Works Co - Golden Chicken Farms Co. - Specialized Medical Company
Ahmed Abdullah Al-Akiel	- Southern Province Cement Co. - Aldrees for Petroleum Services and Transportation
Khaled M. Saad Albawardi	- Albawardi Group of Companies
Hesham Abdullatif Al-Jabr	- Nattily Company for Furniture and Internal Design - Al Jabr Holding Company
Nadir Hassan Alamri	-Saudi Home Loans
Robert Eid	- Saudi Home Loans - MetLife - AIG - ANB Cooperative Insurance Company - ANB Invest
Mohammed A. Alghanamah	
Nemeh Sabbagh	
Riyad Burhan Tahir Kamal	

Principal Board Committees

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

Executive Committee

The Executive Committee consists of the Managing Director and four other board members. Chaired by the Managing Director, the Executive Committee meets on average twice a month and acts as a general management committee with authority delegated to it by the Board. During 2015, the executive committee held 19 meetings. This Committee is responsible for implementing Bank policy, monitoring business performance, managing risks, ensuring the effectiveness of internal controls and approving large capital expenditure projects.

During 2015, the executive committee comprised Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Saad Albawardi and Mohammed A. Alghanamah (as members).

Director's Report

Nomination and Compensation Committee

The Nomination and Remuneration Committee was formed in 2010. It is comprised of three non-executive Board members: Khaled M. Saad Albawardi (Chairman), Salah Rashed Al-Rashed and Ahmed Abdullah Al-Akiel. The committee has the authority to review and recommend to the Board for its approval amendments to the Bank's compensation policy and practices. The committee also reviews the level and composition of remuneration of key executives and recommends a risk adjusted bonus pool to the Board / Executive committee for approval. The committee's functions also include nomination to Board membership, review of the Board's membership structure, determine strengths and weaknesses therein and propose remedial action in line with the Bank's interests. The committee held 5 meetings in 2015.

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

The Board approves the level of remuneration paid to the Board chairman and members in accordance with a mechanism that considers SAMA instructions which set maximum and minimum limits for such remuneration. Annual remuneration and compensation of non-executive and independent Board members were SAR 2,760 thousand, and for executive members SAR 300 thousand. Attendance allowances to the non-executive and independent Board members were SAR 405 thousand, and for executive members SAR 72 thousand. Expense allowances to non-executive and independent Board members including travel and accommodation expenses were SAR 418 thousand. Salaries paid during the year to the six senior executives including CEO and CFO were SAR 16,116 thousand. Their allowances and compensation amounted to SAR 2,969 thousand and their variable compensation SAR 17,265 thousand while their incentive plans amounted to SAR 1,610 thousand. Remuneration paid to members of the audit committee amounted to SAR 600 thousand and their attendance allowances to SAR 72 thousand.

Audit Committee

The Audit Committee assists the Board in reviewing the effectiveness of the Bank's internal control processes and approves the Bank's accounting policies and financial statements. The Audit Committee also approves the annual review plans of the Internal Audit Division and the Compliance Department, assesses the results of their work and ensures the existence of control processes that ensure proper implementation of the Bank's procedures. It provides a direct channel between the external auditors and the Board, ensures the external audit is conducted in a thorough and effective manner and that the reports by the external auditors are properly actioned. The Committee recommends the appointment of external auditors and reviews their audit plans and the results of the work performed. The Bank complies with the Rules and Guidelines for Banks in Saudi Arabia for Organizing Audit Committees issued by SAMA.

The Committee is comprised of an independent board member and two independent non-board members. The Committee met 8 times during 2015. The committee meets regularly with the Managing Director, Chief Financial Officer, Head of Internal Audit, Head of Compliance, Head of Risk Management Group, External Auditors and other members of the management team as may be required for discussions and deliberations.

During 2015, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman), Mr. Saleh A. Al- Ismail and Mr. Mohammed A. Alomran.

Strategy Committee

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

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

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

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

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

During 2015, the Strategy Committee held 1 meeting on March 16, 2015.

Risk Committee

The Board formed a risk committee consisting of the following 5 members:

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

Roles and responsibilities of the committee are as follows:

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

During 2015, the Risk Committee held 2 meetings.

Director's Report

Internal Control Framework

The Management is responsible for establishing and maintaining an adequate and effective internal control system. The internal control system includes the policies, procedures and processes, which are designed under supervision of the Board to achieve the strategic objectives of the Bank.

Internal Audit provides an independent appraisal to the Board's Audit Committee and the management as to the effectiveness of internal controls, regulatory compliance and conformity with Bank's approved policies and procedures. All significant and material findings of Internal Audit reviews are reported to the Audit Committee of the Board through quarterly activity reports. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank and its stakeholders.

Concerted and integrated efforts are made by all functions of the Bank to improve the Control Environment at gross root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the Senior Executive Management is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors.

The Compliance function, which is subject to periodic and independent review by the Internal Audit function, carries out its duties and responsibilities under a compliance programme that sets out its planned activities, such as the implementation and review of specific policies and procedures, compliance risk assessment, compliance testing, and educating staff on compliance matters.

The Bank's internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal control systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies and procedures.

Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls.

The Audit Committee also receives quarterly updates on the Internal Controls Gaps from Internal Audit Department of the Bank. The update on internal controls gaps confirms that the highlighted gaps in the Bank's internal control system have been adequately addressed by the Management.

Based on the results of the ongoing evaluation of internal controls carried out by the management during the year, the Management considers that the Bank's existing control system is adequately designed, operating effectively and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

Based on the above, the Board of Directors has duly endorsed Managements' evaluation of the internal control system, as prescribed by SAMA.

Results of the Review of Internal Control Procedures' Effectiveness

The Audit Committee reviews the effectiveness of the internal control system and informs the Board of the steps taken in this regard. It also submits an inclusive annual report to the Board to assist it in its review of the effectiveness of the internal control system. Following the Audit Committee's review of the Bank's internal control procedure reports, most important of which is the Internal Audit and Risk Management reports and after meetings with the respective heads of these functions to discuss the contents of their reports and the performance of their sectors, the Committee conveys its conclusion to the Board whether the Bank's internal control cycle reflects the effectiveness of its internal control procedures and that it is in continued development to meet changing business needs and developments. The Committee is not aware of any significant control gaps or weaknesses in the Bank's internal control systems that require disclosure.

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

Communication with Shareholders

Communication with shareholders is given a high priority. Extensive information about the Bank's activities is provided in the Annual and Interim Financial Statements, which are published in the newspapers and are also posted on the Bank's website. Further investor information is also accessible on the Bank's website, www.anb.com.sa. 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 2015, 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 and Poor's	A
Moody's	A1
Fitch Ratings	A

Director's Report

Interests of Board Members, Senior Executives, their wives and children

(Shares in thousands)

1) Major Shareholders

	At beginning of year January 1, 2015		change during the year		At end of year December 31, 2015	
Name	Number of shares	Ownership %	Number of shares	Change %	Number of shares	Ownership %
Arab Bank PLC	400,000	40.00	-	-	400,000	40.00
General Organization for Social Insurance (GOSI)	112,813	11.28	7,753	0.069	120,566	12.06
Rashed Abdul Rahman Al-Rashed and Sons Co.	99,685	9.97	-	-	99,685	9.97
Al-Jabr Trading Company	56,542	5.65	-	-	56,542	5.65

2) Board Members, Senior Executives, their wives and children

	At beginning of year January 1, 2015		change during the year		At end of year December 31, 2015	
Name	Number of shares	Ownership %	Number of shares	Change %	Number of shares	Ownership %
Salah Rashed Al-Rashed	4.0	0.0	7,089	1.77	7,093	0.7
Rashid Saad Al-Rashid	11,755	1.18	507	0.043	12,262	1.18
Ahmed Abdullah Al-Akeil	235.3	0.02	(24.9)	0.106	210.4	0.02
Khaled M. Saad Albawardi	33.3	0.0	-	-	33.3	0.00
Hesham Abdullatif Al-Jabr	12.0	0.0	-	-	12.0	0.00
Nadir Hassan Alamri*	-	-	-	-	-	-
Nemeh Sabbagh**	-	-	-	-	-	-
Mohammed A. Alghanamah**	-	-	-	-	-	-
Robert Eid**	-	-	-	-	-	-
Riyad Burhan Tahir Kamal**	-	-	-	-	-	-
Obaid A. Al Rasheed	28.5	0.0	-	-	28.5	0.00
Relatives of Zuhair S. Al Herbish	70.2	0.0	-	-	70.2	0.00

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

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

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

Assignment of interests by ANB Directors / Executives / Shareholders

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

Statutory Payments

Statutory payments during the year 2015 were as follows:

	SAR 'Millions
Zakat Attributable To Saudi Shareholders	296
Income Tax Payable By The Non-Saudi Shareholders	246
Withholding Tax	25
Gosi	59

Penalties and Regulatory Restrictions

Some immaterial penalties were charged during 2015 as a result of operational activities. The details of these penalties are as follows:

	SAR '000
Saudi Arabian Monetary Agency	250
Capital Market Authority	400
Others	3,201

Director's Report

Human Resources

Total number of staff at the end of 2015 was 4,846 compared to 4,554 at the end of 2014. The Saudization ratio at the end of 2015 was 89%.

Donations and Social Responsibilities

The Bank has a strong belief in its role in the society it is honored to serve. This approach is demonstrated by its continued support of charitable, educational, and other social institutions, to which it donated SAR 8 million during 2015.

Conflicts of Interests

Following is a statement of the related parties' transactions as shown in the 2015 consolidated financial statements which include any contract in which any member of the Board or any of their affiliates has or had any material interest, in addition to the facilities granted to some Board members. All these facilities are governed by SAMA instructions that stipulate that all facilities offered to non-banking parties should be fully guaranteed.

It is worth noting that the Bank did not have nor did it enter into any contract in which the Managing Director and/or the Chief Financial Officer has or had any material interest.

Related Party Transactions

a) The balances as at December 31 2015 resulting from such transactions included in the consolidated financial statements are as follows:

	SAR '000
Non-Saudi Major Shareholder:	
Due from banks and other financial institutions	220,977
Due to banks and other financial institutions	364,500
Commitments, contingencies and others	3,180,000
Directors, key management personnel, other major shareholders and their affiliates:	
Loans and advances	5,913,726
Customers' deposits	12,183,229
Commitments, contingencies and others	1,744,463
Purchase of equipment	689
Bank's mutual funds:	
Investments	296,721
Loans and advances	34,661
Customers' deposits	474,581
Associates:	
Loans and advances	2,383,867
Customers' deposits	49,770
Commitments and contingencies	47,032
Local sukuk	10,000

b) Income and expenses transactions with related parties included in the consolidated financial statements for the year ended 31 December 2015 are as follows:

	SAR '000
Special commission income	190,229
Special commission expense	(102,559)
Fees and commission income	87,332
Equipment rental income	10,120
Directors' remuneration	(4,949)
Insurance contracts	(56,524)
Miscellaneous expenses	(9,866)

c) The total amount of compensation paid to key management personnel during the year ended 31 December 2015 is as follows:

	SAR '000
Short-term employee benefits (Salaries and allowances)	57,052
Post-employment benefits (End of service indemnity and social security)	6,713

Key management personnel are those persons, including an executive director, having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Bank.

ANB Code of Conduct

The Bank is committed to conduct its business in accordance with the highest ethical standards, relevant legislation and regulation. The Bank fully cooperates with regulators and supervisory bodies.

The Board sets the ethical tone within the Bank and encourages management and staff to act ethically and in accordance with applicable laws, rules, regulations and policies of the Bank, and in line with best practices.

The Board ensures, through senior management, that it has established through word and action the desired value-based culture and reinforces appropriate behaviour through effective awareness programs.

The Bank has a Code of Ethical Behaviour consistent with best practice. The code sets out the values that guide behaviour and conduct of business across the organization.

Director's Report

Accounting Standards

The Bank prepares its consolidated financial statements in accordance with Accounting Standards for Financial Institutions promulgated by SAMA and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the Provisions of the Regulations for Companies in the Kingdom and the Bank's by-laws. There are no significant differences to the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

It is worth mentioning that the CMA issued the circular No. S/1/383/16 dated Rabi Al- Thani 3, 1437H (corresponding to January 13, 2016) in which the Authority confirmed that the company's board of directors should include in its board report for the two financial years 2015 and 2016 details of its plan to implement all the International Accounting Standards after approval of the Saudi Organization for Certified Public Accountants (SOCPA) for the financial statements prepared for the periods starting on or after January 1, 2017, in addition to the phases of the plan implementation and the company's ability to implement the International Accounting Standards on January 1, 2017.

As the Bank is already complying with International Accounting Standards in preparing its consolidated financial statements, there will be no plans with respect to the above mentioned circular.

External Auditors

In its meeting held on March 16, 2015, the Ordinary General Assembly appointed Messrs. Ernst and Young and KPMG Al Fozan and Al Sadhan as external auditors of the Bank for the year 2015.

Statement of Directors' Responsibilities in Relation to the consolidated Financial Statements

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

- ANB has properly maintained its accounting records;
- The internal control system was properly prepared and effectively implemented;
- There is no doubt that ANB has the resources to continue in business; and
- The Bank did not have nor did it enter into any contract in which any member of the Board, the Managing Director, the Chief Financial Officer or any of their associates has or had any material interest except as disclosed in this report and in note No. (37) of the Consolidated Financial Statements disclosing related parties transactions.

Board of Directors

February 16, 2016

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

After a long period of stability and of operating in a benign business environment, the Bank faced more challenging market conditions in 2015 principally due to the sharp decline in oil prices. Despite this, ANB achieved a solid financial performance with net income growing to SAR 2,96 billion, an increase of 3.1% from the previous year. Total balance sheet footings stood at SAR 170,4 billion by end – 2015.

Consumer Bank

In 2015, the Consumer Bank focused on meeting the dual challenge of sustaining growth and profitability in difficult market conditions. Leveraging off the development of more competitive product offerings in consumer assets targeted at strategically important customer segments helped improve consumer asset growth and customer satisfaction. Customer deposits grew from both existing and newly acquired customers, despite the continued low interest rates.

At year-end, there was a total of 336 outlets : 153 branches, 50 ladies' sections and 22 Sales Centers. This is in-line with the Bank's overall distribution growth strategy. TeleMoney has 96 centers and continues to grow in a profitable manner. Additionally, the Bank has 10 SME centers and 3 Corporate branches.

Alternative Channels continue to be a success story with over 90% of all transactions now being conducted outside of the branches in line with one of the Bank's key strategic goals. ANB Mobile continues to sustain its high customer uptake and continues to be rated as one of the best mobile services in the market by its user base. Mobile Banking plays a major role in decreasing the costs for the Bank, as it is the least expensive way to service customers.

The number of ATMs currently exceeds 1,300, and in addition to growing the network, over 150 of the older ATMs were replaced, helping to improve ATM network availability. ATMs continue to be the most utilized of the non-branch channels, aiding in off-loading the more expensive teller transactions. More multi-function ATMs were added this year and additional cost savings will be realized as more branch deposits move to this channel.

Aligning with the newly-introduced MADA strategy to move more customers away from using cash by using their debit cards on POS machines, the Bank has grown the network by some 10,000 terminals approaching the 20,000 terminal target. Additionally, there have been several successful customer and merchant promotions to increase POS usage throughout the course of 2015.

VISA named ANB as the largest and most successful issuer of Signature credit cards in the Kingdom. This achievement came as a result of the unwavering efforts of the Bank's Marketing, Branch and Sales teams. Additionally, the customization of the Signature offering with exclusive value-added benefits and special discounts with selected merchants has accelerated the customer uptake for this prestigious credit card.

Personal Finance conducted several successful promotions throughout 2015 highlighted by the give-away of 22 KIA cars via a raffle draw. Auto Lease continues its success as one of the leaders in the Kingdom with strong growth and profitability this year.

The Bank continued to enhance its overall customer service levels and is aligned with SAMA's new program to ensure improved and sustainable service throughout all banks operating in the Kingdom. The Bank's "Customer Experience" department is key to achieving these higher levels of customer service working closely with the Transformation Team, who ensures implementation through the entire branch network. Ongoing staff training and monitoring also ensures that the customer protection principles become an integral part of any staff interaction with customers. The periodic Mystery Shopping surveys continue to indicate that ANB is highly competitive with its peer banks, and it reinforces the need for staff to consistently deliver a high standard of service to each customer.

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

2015 culminated with ANB being awarded the "Best Retail Bank in Saudi Arabia" by the prestigious Global Banking and Finance Review. This reward recognizes the ongoing efforts made by the Retail and Consumer Banking businesses and the customer perception of both the products offered and the level of customer service provided.

Private Bank

The Private Bank provides High Net Worth clients with a comprehensive range of customized banking and investment products to meet their specific needs.

A team of dedicated and highly skilled Relationship Managers is deployed to deliver a sophisticated suite of wealth management products and services.

London Branch

Selective growth has continued in the past year with a focus on Saudi-centric business in Private Banking, Trade Finance, Corporate Banking and Treasury.

London Branch remains an important international outlet for the Bank and adds value to its client base. In 2015, as in recent years, the UK residential and commercial Real Estate sectors constituted an important attraction to Saudi investors.

Corporate Bank

ANB's Corporate Bank provides comprehensive relationship coverage, to ensure the best possible service and responsiveness to its top-tier corporate clients, providing them with an extensive range of products, solutions and services.

The Corporate Bank generated consistent and strong revenue growth during the year. While continuing with a vigilant and balanced approach to writing new businesses, it fostered deep and long-term relationships with its clients, ensuring support to the development of major projects of strategic importance to the Kingdom.

Given its conservative nature, the Corporate Bank portfolio and businesses are managed prudently, with a sharp focus on maintaining strength and diversity of the portfolio.

The Corporate Bank continues to grow selectively, by widening its customer-base through its full range of commercial banking products and services. It has continued to optimize its performance through innovative and customized solutions, particularly in the areas of Cash Management, Trade Finance, Project Finance, Treasury and Islamic Banking.

Business Review

Commercial Bank

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

Small and Medium Enterprises (SME)

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

In 2015, ANB further expanded its footprint and range of products and services offered to SMEs. The bank currently has 10 SME Centers functional across 10 cities and there are plans to expand coverage further. These centers are managed by a dedicated team of sales and services personnel offering a range of customized solutions to SMEs covering financing, transaction banking and account services.

Islamic Banking

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

Product development: It develops Shari'ah compliant products that provide financial solutions to customers. In 2015, a range of finance, investment, and treasury products were successfully developed in accordance with Shari'ah guidelines.

Business development: It coordinates with all business segments in the Bank and supports them with the identified market segments/individual opportunities for Islamic banking.

Shari'ah affairs: It reviews the activities of business units and affiliates to ensure compliance with Shari'ah board guidelines. During 2015, the Shari'ah board reviewed compliance reports and approved a number of new products and transactions.

Training: During 2015, the group trained 696 Bank employees in Islamic banking and Shari'ah compliant products.

Branch conversion: 5 Islamic Ladies sections were opened, and 22 conventional branches/sections were converted to dedicated Islamic branches/sections. In total, 139 branches, including 47 ladies sections, representing 93% of ANB's retail branch network, are now dedicated to provide Shari'ah compliant products and services.

Treasury

Treasury strongly contributed to the overall performance in 2015 despite the low interest rate environment, tight credit premium and robust cost of funding.

The strong performance was attributed to fee-income generated from client execution by providing superior services as well as the efficient management of cost of funding. Treasury's pro-active management of foreign exchange and interest rate risk also contributed to the overall performance. Treasury continues to manage a well-balanced investment portfolio whilst maintaining a conservative asset allocation strategy.

Strategic Investments

Strategic Investments broadly cover four different lines of business: Home Finance, Insurance, Heavy Equipment Leasing, and Investment Banking.

Saudi Home Loans (SHL)

Saudi Home Loans continued its solid performance in 2015, amid stringent regulatory changes in the industry. Leading the way in the developing home finance industry, SHL continues to be well-positioned to capitalize on the strong and growing demand for housing loans in the Kingdom. The 2016 outlook for SHL is promising, with continued strong growth predicted, notwithstanding the challenges posed by the regulatory changes.

MetLife / AIG / ANB / Cooperative Insurance Company

Now in its second year of full operations, ANB's joint venture with AIG and Metlife offers general and personal lines of insurance products. ANB Insurance Agency, the 100% owned insurance agency continues to work hand in glove distributing insurance products to ANB customers, utilizing its broad retail branch footprint and corporate, commercial, and SME client base.

Heavy Equipment Leasing (AHEL)

AHEL, the crane and heavy equipment leasing subsidiary, continued to focus on optimizing operational performance and profitability during 2015.

The company enjoyed its most profitable year ever in addition to implementing a number of operational initiatives including the introduction of a new ERP system and achieving ISO certification.

ANB Invest

ANB Invest is a Closed Joint Stock Company offering brokerage, investment banking and asset management services.

Brokerage business is the largest contributor to the total revenue of the Company. The brokerage revenue is generated from shares traded on the Saudi Stock Exchange (Tadawul). Slowdown in the Chinese economy and oversupply of oil led to significant drop in oil prices which had a negative effect on the Tadawul index and market turnover. This drop in market turnover impacted the brokerage revenues. ANBI implemented a new Order Management System in 2015 which has been very well received by its customer base.

Asset management is the second largest business line contributor to the total revenue of the company. Revenues from Asset management increased during 2015 thus offsetting the revenues shortfall from Brokerage. Assets under management (AUM) increased by almost 7%, from SR 4.35 billion to SR 4.64 billion. The increase in the AUM, is mainly due to the increase in the Murabaha, Money market funds and the launch of Business Gate Private Placement Real Estate Fund.

ANB Invest was one of the financial advisers, Lead Managers and Bookrunners of the successful issuance of ANB's SAR 2 billion subordinated Sukuk.

Risk Management

ANB's Risk Management Group provides the Bank with an independent and centralized risk management function. Its role is to maintain balance between risks and returns, in line with the Bank's strategic objectives.

The group is also responsible for implementing the Basel Accord's capital adequacy and other related requirements. Its activities cover the following key areas:

Business Review

Credit risk

- Establishes lending policies, risk appetite framework, stress testing policy, and concentration limits;
- Regularly assesses and reviews overall portfolio quality;
- Monitors and improves credit risk management techniques in order to implement Basel advanced approaches and other regulatory requirements; and
- Performs independent risk reviews periodically to validate the effectiveness of the credit management system.

Market risk

- Identifies, measures, monitors, and reports market and liquidity risk using a combination of tools including rate sensitivities, gap analysis, value-at-risk and stress testing;
- Assists in managing maturity and interest rate risk profile of the Bank's balance sheet;
- Ensures that the Bank's market and liquidity risk policy and limits are in line with international best practices; and
- Enhances market and liquidity risk management policies and procedures to meet regulatory requirements, which include recently updated Basel regulations.

Operational Risk and Financial Fraud Management

- Develops operational risk and fraud risk management strategies in accordance with corporate governance standards and industry best practices;
- Promotes and enhances the effectiveness of operational risk and fraud risk management throughout the Bank;
- Identifies, assesses, monitors, and reports operational risks and fraud risks across the bank's activities;
- Ensures comprehensive investigation of all suspected and fraudulent activities and provides guidance to staff in terms of action to be taken if any fraudulent activity is suspected; and
- Continues to work towards implementing the requirements of the Basel advanced measurement approach.

Business continuity

- Develops business continuity policies and procedures for the Bank in line with industry standards;
- Formulates plans to enable the Bank to quickly continue its critical operations in the event of a disruption to normal business;
- Continuously tests the Business Continuity Plan through a series of exercises across the Bank; and
- Promotes awareness and understanding of business continuity among the Bank's staff.

Credit administration and control

- Authorizes credit disbursement and ensures compliance with approval conditions;
- Prepares and maintains custody of security documentation;
- Monitors limits and collateral coverage;
- Follows up on credit-related irregularities; and
- Monitors regulatory limits and submits reports to SAMA periodically.

E-Banking Risk

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

Credit Group

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

Compliance

ANB believes that Compliance with laws, rules and regulations is a fundamental element to its success. ANB is committed to protect its reputation and credibility; protecting shareholders and depositors and providing safeguards against sanctions. Such is achieved by compliance with applicable laws, regulations, and ethical standards. All employees are expected to conduct business and their daily tasks in compliance with these laws, regulations, and ethical standards, and management is responsible for ensuring such compliance.

The Board of Directors has a collective responsibility for managing compliance risks across the group. The management of business and support units has responsibility for managing compliance risk at a specific unit level assisted by dedicated compliance officers. ANB has established an independent Compliance and AML Division to be entrusted with compliance functions. ANB has adopted a Compliance Policy, Compliance Manual and an Annual Compliance Program to assist the business and support units effectively manage their compliance risks. This is complemented by a robust monitoring program and a regular reporting cycle to the Audit Committee, thereby providing reliable objective assurance to the Board.

Information Technology

The principal objective of the Information Technology Group (ITG) is to provide a secure and stable infrastructure platform that will help enable the delivery of applications and systems to support the business goals of the Bank. Through the growth in digital banking and Alternate Delivery Channels in addition to the traditional branch banking, ITG continues to provide product innovation and enhanced service for all banking customers.

Projects implemented in 2015 include new products and services for cards, electronic channels, self-service machines, e-commerce, consumer credit, and corporate. New projects have been initiated to increase automation in branches for business services. Additional features for mobile banking and enhanced Internet banking portal are also in progress.

A strong foundation for information technology is critical and focus will continue on governance, risk management, security, and flexibility for continued growth and progress.

Human Resources

In 2015, the Human Resources Group (HRG) continued its strong commitment to the education and professional development of all employees.

Efforts were focused in resourcing, training, developing, and retaining skilled professionals for the various functional entities. In a competitive market for skilled professionals, HRG adopted several pro-active initiatives to maintain staff loyalty. These initiatives allow employees to pursue a multitude of professional opportunities both within banking as well as elsewhere across different non-banking support functions of the bank.

HRG has been steadily attracting the right fit of bright Saudi graduates from leading local and international universities, and enrolling them in its Executive Management Trainees Program.

Social Responsibility

During 2015, ANB sponsored and supported a number of events and organizations across major pillars; health, culture and education. Additionally, it sponsored various training programs, including those of the Public Pension Agency and other activities and events of a social nature.

ANB's new Head Office Tower, together with the existing HO Complex, stand out as an iconic landmark in the centre of Riyadh, thanks to its elegant design, which is both majestic and contemporary, its strategic location on King Faisal Road in Murabba District and its proximity to King Fahad Road.

The Head Office Tower, which was constructed on an area of 20,000 square meters, consists of 24 floors, of which 4 are underground car parking. The design provides state of the art integrated office facilities and meeting rooms. Aesthetic design incorporating distinctive lighting and internal plants complement the building's beauty, starting at the main lobby and spreading to the offices and corridors throughout the tower.

12,000 square meters of landscaping and parks add elegance and beauty. The landscaping is designed to be sympathetic to the environment and allows employees to enjoy a serene and tranquil environment thanks to a mixture of trees, plants, fountains, waterfalls, sculptures and attractive lighting.





The complex includes a high class restaurant and café with panoramic views and a multi-story car park for employee vehicles, with an overall capacity of more than 1,000 vehicles.

The structure was designed with a number of innovative concepts for lighting, air-conditioning, ventilation, insulation and glass shading which reduce energy consumption. The large glass facades on all 4 sides of the structure lets in natural light, further enhancing the elegance and splendor of the tower, both inside and out.

The pre-existing buildings were renovated to fit in with the majestic new tower, and form a unified campus hosting most departments of the Bank. This centralization enhances operational efficiency and has resulted in increased staff productivity.

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