

Arab National Bank
Annual Report 2016



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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



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



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

Chairman's Message



Salah R. Al-Rashed
Chairman

On behalf of the Board of Directors, it is my pleasure to present the annual report and closing accounts of Arab National Bank for the year ended December 31, 2016.

Challenging market conditions characterized the year 2016. Against this backdrop, the Bank focus was on sustaining long-term client relationships, tightening up risk management and maintaining a robust balance sheet. Net income at SR 2.85 billion, declined 3.7% compared to the previous year, while the balance sheet stood at SR 170 billion by end-2016, virtually unchanged from end-2015.

The Bank's approach to prudently managing credit risk aligned with the focus on selective growth opportunities ensures that consistent and predictable earnings continue to be achieved. With lower oil prices, consumers with less expendable income and tighter market liquidity, the prospects for growth were generally limited.

As part of the Government's focus to reduce dependence on oil revenues, "Saudi Arabia's Vision 2030" was adopted as a roadmap for economic and developmental action. The Bank is committed to playing its part in achieving the goals contained in Vision 2030. Public Private Partnership and focus on SME figure prominently in the Vision 2030 objectives.

With over 90% of transactions now being transacted outside of the branches, a key focus in 2016 was delivering more functionality over the Internet and Mobile Banking channels. This was complemented by the

re-engineering of a number of retail and consumer processes to make them more efficient and to enhance customer experience.


Risk management, compliance and corporate governance remain of utmost importance both at Board level and across the Bank in general. The escalating threat posed by cyber-crime is also one being faced both at national and industry level. Considerable emphasis has been placed on putting in place the best technical controls possible in addition to ensuring that employees understand their responsibilities and remain vigilant at all times.

On behalf of the Board and myself, I would like to express my thanks and appreciation 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 leadership and wisdom in guiding the economy during these challenging times.

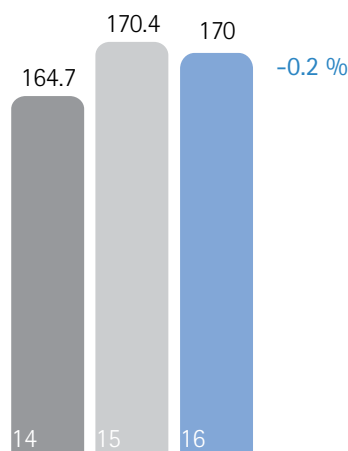
The Bank recognizes its responsibility to all stakeholders and to the wider community in which it operates.

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

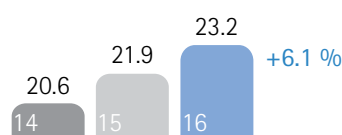
Salah R. Al-Rashed
Chairman



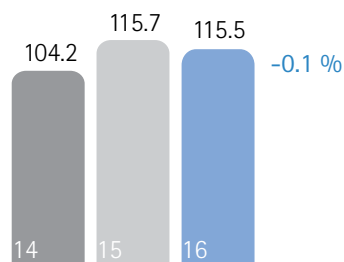
Financial Highlights



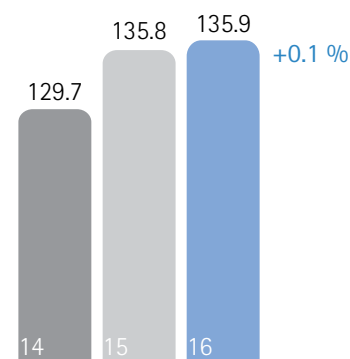
Total Assets
SAR billions



Total equity attributable to equity holders of the bank
SAR billions



Loans & Advances, net
SAR billions



Customers' deposits
SAR billions

SAR Millions	2016	2015	2014	2013	2012
Net Commission income	4,145	3,845	2,623	3,375	3,260
Net Income Before Provisions for credit losses	3,580	3,540	3,359	3,079	2,752
Net Income attributed to equity holders of the Bank	2,854	2,964	2,875	2,522	2,371
Expense to Revenue Ratio	38.9%	39%	38.3%	39.6%	40.5%
Return on Assets (ROA)	1.7%	1.8%	1.9%	1.8%	1.9%
Return on Equity (ROE)	12.6%	14%	14.5%	13.7%	13.8%
Investments	25,548	33,294	33,941	28,331	24,408
Loans and Advances, net	115,512	115,656	104,180	88,785	86,646
Total Assets	170,009	170,421	164,668	137,935	136,639
Customers Deposits	135,907	135,761	129,740	106,428	107,618
Total Equity attributed to equity holders of the Bank	23,235	21,894	20,601	19,080	17,804



Most Sustainable Bank
Saudi Arabia 2016

A⁻

Fitch Ratings

A²

Moody's

BBB⁺

Standard & Poor's

Director's Report

Directors' Report for the financial year ended December 31, 2016

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, 2016

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 151 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 2016 financial year amounted to SAR 2,854 million compared to SAR 2,964 million in 2015, a decrease of 3.7%. Net special commission income increased by 7.8% to SAR 4,145 million compared to SAR 3,845 million in the previous year, while fees and commission income decreased by 19.3% to SAR 1,037 million from SAR 1,286 million in 2015. This resulted in total operating income increasing by 1.3% from SAR 5,781 million in 2015 to SAR 5,854 million in the current financial year.

Operating expenses before provisions totalled SAR 2,261 million compared to SAR 2,243 million in 2015, representing an increase of 8%. The Bank continued to adopt conservative risk management policies to ensure it has sufficient provision coverage. Provision charge for credit losses was SAR 726 million compared to SAR 575 million in 2015 resulting in a non-performing loans coverage ratio of 270% as at December 31, 2016.

The Bank's loan portfolio ended the year at SAR 115,512 million compared to SAR 115,656 million in 2015 and its investment portfolio decreased to SAR 25,548 million from SAR 33,294 million in 2015, a decrease of 0.1% and a decrease of 23.3% respectively.

Total assets and customer deposits as at December 31, 2016 amounted to SAR 170,009 million and SAR 135,907 million respectively.

Equity attributable to equity holders of the Bank was SAR 23,235 million compared to SAR 21,894 million in 2015, an increase of 6.1%.

Financial Highlights

	SAR millions				
	2016	2015	2014	2013	2012
Loans and advances, net	115,512	115,656	104,180	88,785	86,646
Investments, net	25,548	33,294	33,941	28,331	24,408
Customers' deposits	135,907	135,761	129,740	106,428	107,618
Shareholders, Equity	23,235	21,894	20,601	19,080	17,804
Total assets	170,009	170,421	164,668	137,935	136,639
Total liabilities	146,084	147,789	144,029	118,747	118,730
Total operating income	5,854	5,781	5,441	5,039	4,616
Total operating expenses	3,025	2,862	2,591	2,551	2,273
Net Income	2,854	2,964	2,875	2,522	2,371

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*	3,946,847
Western Region	1,150,708
Eastern Region	756,582
Total	5,854,137
* 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 (ANB Invest)

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, 1436 (corresponding to November 12, 2014) the subsidiary changed its legal structure from a limited liability company to a closed joint stock company.

The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

Director's Report



Back Row: Ahmad Wazie Al Qahtani / Ahmed A. Al-Akeil/ Dr. Robert Eid (Managing Director)/ Dr. Bassem Ibrahim Awadallah / 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 of Saudi Arabia 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 of Saudi Arabia 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 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 of Saudi Arabia under commercial registration No. 1010391438. The company's authorized and issued capital is SAR 175 million representing 17.5 million shares with a nominal value of SAR 10 per share. The Bank owns 5.25 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. The Bank owns 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2016.

Arab Insurance Agency

A wholly owned subsidiary incorporated in the Kingdom of Saudi Arabia during 2013 as a limited liability company under commercial registration No. 1010396423 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 the SAMA to start its activities on Jumada I 5, 1435H (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned subsidiary, registered in the Kingdom of Saudi Arabia as a limited liability company under commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). 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 owns indirectly 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 Shawwal 9, 1435H (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
2016 net income	2,853,901
Retained earnings from previous years	2,509,946
Total	5,363,847
Distributed as follows:	
Transferred to statutory reserve	(714,000)
Gross dividend distribution –Interim and proposed	(1,477,000)
Retained earnings for 2015	3,172,847

Director's Report

Future Plans

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

- Position the Bank to leverage the opportunities presented by the Saudi Vision (2030);
- Position the Bank on a path to digital transformation;
- Continuing to upgrade the Bank's information and communication systems;
- Continued focus on small and middle enterprises; and
- Reinforce presence in the lucrative middle market.

Principal activities

For management purpose the Group 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 Group's transfer pricing system. The Group has amended the transfer pricing methodology, with retrospective effect from January 1, 2016, to enhance the business segment reporting. Segment assets and liabilities mainly comprise operating assets and liabilities.

The Group'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 Group's overall consolidated financial statements and are as a result not disclosed separately.

The Group's total assets and liabilities as at December 31, 2016 and its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

(Figures in SAR '000)

2016	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,646,384	81,688,890	45,777,443	1,720,057	2,175,948	170,008,722
Investments in associates	-	-	-	-	616,395	616,395
Total liabilities	70,312,127	69,597,993	5,524,959	135,825	513,265	146,084,169
Operating income / (loss) from external customers	2,028,481	3,799,425	(288,908)	172,545	142,594	5,854,137
Intersegment operating income/(expense)	303,023	(1,790,974)	1,321,625	-	166,326	-
Total operating income	2,331,504	2,008,451	1,032,717	172,545	308,920	5,854,137
of which:						
Net Special commission income	1,962,616	1,508,848	484,077	12,827	177,117	4,145,485
Fees and commission income, net	308,366	549,722	9,185	75,354	94,500	1,037,127
Impairment charges for credit losses, net	364,350	361,786	-	-	-	726,136
Impairment charges for investments, net	-	-	37,645	-	-	37,645
Depreciation and amortization	86,663	2,433	2,390	2,427	139,465	233,378
Total operating expenses	1,832,069	871,700	141,327	95,921	83,521	3,024,538
Share in earnings of associates, net	-	-	-	-	32,278	32,278
Net income attributed to non-controlling interest	-	-	-	-	(7,976)	(7,976)
Net income attributed to equity holders of the Bank	499,435	1,136,751	891,390	76,624	249,701	2,853,901

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 to their investment.	The Bank is not permitted under any capacity to oblige judicial investors that act on behalf of others to disclose their voting rights.

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

As at December 31, 2016, the authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each.

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, and 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 resident 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 business units, the annual internal audit plan and authority levels for expenditure. All Directors have full and timely access to relevant information through the Board 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, 2016 that were appointed by Arab Bank PLC were Nemeh Sabbagh, Mohammed A. Alghanamah, Dr. Bassem Ibrahim Awadallah and Dr. Robert Eid (Managing Director).

Director's Report

As at December 31, 2016, 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	Ahmed Wazie Alqahtani	Board member (non-executive)
8	Nemeh Sabbagh	Board member (non-executive)
9	Mohammed A. Alghanamah	Board member (non-executive)
10	Dr. Bassem Ibrahim Awadallah**	Board member (non-executive)

* According to the Capital Market Authority definition of independency.
▲ According to the Saudi Arabian Monetary Authority definition of independency.
** Effective 1/9/2016, Dr. Bassem Ibrahim Awadallah was appointed a member of the Board (representing Arab Bank PLC) to replace Mr. Riyadh Burhan Tahir Kamal.

Four regular Board meetings were held during 2016 and were attended as follows:

Date	ATTENDANCE RECORD	No. of attendees
March 24, 2016	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Nemeh Sabbagh, Mohammed A. Alghanamah and Riyadh Burhan Tahir Kamal.	10
May 23, 2016	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Nemeh Sabbagh, Mohammed A. Alghanamah and Riyadh Burhan Tahir Kamal.	10
September 27, 2016	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Nemeh Sabbagh, Mohammed A. Alghanamah and Bassem Ibrahim Awadallah.	10
December 20, 2016	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Nemeh Sabbagh, Mohammed A. Alghanamah and Bassem Ibrahim Awadallah.	10

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, 2016 were as follows:

Director	Director
Salah Rashed Al-Rashed	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Southern Province Cement Co. - Aldrees for Petroleum Services and Transportation
Khaled M. Saad Albawardi	<ul style="list-style-type: none"> - Albawardi Group of Companies
Hesham Abdullatif Al-Jabr	<ul style="list-style-type: none"> - Nattily Company for Furniture and Internal Design - Al Jabr Holding Company
Ahmed Wazie Alqahtani	
Dr. Robert Eid	<ul style="list-style-type: none"> - Saudi Home Loans - MetLife - AIG - ANB Cooperative Insurance Company - ANB Invest
Mohammed A. Alghanamah	-
Nemeh Sabbagh	-
Dr. Bassam Ibrahim Awadallah	-

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 2016, 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.

Director's Report

During 2016, 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).

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 7 meetings in 2016.

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 3,297 thousand, and for executive members SAR 358 thousand. Attendance allowances to the non-executive and independent Board members were SAR 542 thousand, and for executive members SAR 104 thousand. Expense allowances to non-executive and independent Board members including travel and accommodation expenses were SAR 574 thousand. Salaries paid during the year to the six senior executives including CEO and CFO were SAR 16,574 thousand. Their allowances and compensation amounted to SAR 3,097 thousand and their variable compensation were SAR 17,495 thousand while their incentive plans amounted to SAR 3,150 thousand. Remuneration paid to members of the audit committee amounted to SAR 600 thousand and their attendance allowances to SAR 69 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 2016. 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 2016, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman), Mr. Saleh A. Al-Ismael 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
- Ahmed Wazie Alqahtani.

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 2016, the Strategy Committee held 1 meeting on March 9, 2016.

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
- Ahmed Wazie Alqahtani

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 2016, 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. 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 2016, the Bank's credit ratings granted by prominent international credit rating agencies were as follows:

Standard and Poor's	BBB+
Moody's	A2
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, 2016		change during the year		At end of year December 31, 2016	
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)	120,566	12.06	(239.8)	(0.20)	120,326	12.03
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)	(100)	-	-
Al-Jabr Investment and Real Estate Co. (*)	-	-	56,542	100	56,542	5.65

(*)During the year, Al-Jabr Trading Company transferred its shares in ANB to Al-Jabr Investment and Real Estate Co

2) Board Members, Senior Executives, their wives and children	At beginning of year January 1, 2016		change during the year		At end of year December 31, 2016	
Name	Number of shares	Ownership %	Number of shares	Change %	Number of shares	Ownership %
Salah Rashed Al-Rashed	7,093	0.70	-	-	7,093	0.70
Rashid Saad Al-Rashid	12,262	1.23	(162.3)	(1.32)	12,100	1.21
Ahmed Abdullah Al-Akeil	210.4	0.02	(74.9)	(35.60)	135.4	0.01
Khaled M. Saad Albawardi	33.3	0.00	-	-	33.3	0.00
Hesham Abdullatif Al-Jabr	12.0	0.00	-	-	12.0	0.00
Ahmaed Wazie Alqahtani*	-	-	-	-	-	-
Nemeh Sabbagh**	-	-	-	-	-	-
Mohammed A. Alghanamah**	-	-	-	-	-	-
Robert Eid**	-	-	-	-	-	-
Bassem Ibrahim Awadallah**	-	-	-	-	-	-
Obaid A. Al Rasheed	28.5	0.00	-	-	28.5	0.00
Relatives of Zuhair S. Al Herbish	70.2	0.00	-	-	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 2016 were as follows:

	SAR 'Millions
Zakat Attributable To Saudi Shareholders	345
Income Tax Payable By the Non-Saudi Shareholders	232
Withholding Tax	6
Gosi	60

Penalties and Regulatory Restrictions

Some immaterial penalties were charged during 2016 as a result of operational activities. The details of these penalties are as follows:

	SAR '000
Saudi Arabian Monetary Agency	1,475
Capital Market Authority	1,040
Others	984

Director's Report

Human Resources

Total number of staff at the end of 2016 was 4,403 compared to 4,846 at the end of 2015. The Saudization ratio at the end of 2016 was 88%.

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 2016.

Conflicts of Interests

Following is a statement of the related parties' transactions as shown in the 2016 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 which 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, 2016 resulting from such transactions included in the consolidated financial statements are as follows:

	SAR '000
Non-Saudi Major Shareholder and their affiliates:	
Due from banks and other financial institutions	46,399
Due to banks and other financial institutions	586,370
Commitments, contingencies and others	2,873,693
Directors, key management personnel, other major shareholders and their affiliates:	
Loans and advances	6,339,241
Customers' deposits	11,663,653
Commitments, contingencies and others	1,472,272
Purchase of equipment	681
Bank's mutual funds:	
Investments	194,701
Customers deposits	537,564
Associates:	
Loans and advances	2,426,038
Customers' deposits	94,682
Commitments and contingencies	45,639
Local sukuk	10,000

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

b) Income and expenses transactions with related parties included in the consolidated financial statements for the year ended December 31, 2016 as follows:

	SAR '000
Special commission income	332,808
Special commission expense	(164,081)
Fees and commission income	62,305
Directors' remuneration	(5,866)
Miscellaneous expenses	(8,383)
Insurance contracts	(3,109)

c) The total amount of compensation paid to key management personnel during the year ended December 31, 2016 as follows:

	SAR '000
Short-term employee benefits (Salaries and allowances)	52,958
Post-employment benefits (End of service indemnity and social security)	6,307

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 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 24, 2016, the Ordinary General Assembly appointed Messrs. Ernst and Young and KPMG Al Fozan and Partners as external auditors of the Bank for the year 2016.

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 neither have nor entered into any contract in which any member of the Board, the Managing Director, the Chief Financial Officer or any of their associates has or had any material interest except as disclosed in this report and in note No. (36) of the Consolidated Financial Statements disclosing related parties transactions.

Board of Directors

February 21, 2017

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

Challenging market conditions continued to prevail in 2016. Yet the announcement of Saudi Arabia Vision 2030 provided a comprehensive framework for placing the Saudi economy on solid foundations. Despite the challenging environment, the Bank achieved a relatively good performance with net income reaching SAR 2,854 million. Compared to last year, this represents a drop of 3.7%. Total balance sheet footings stood at SAR 170 billion by end of 2016, practically unchanged from the previous year.

Consumer Bank

In 2016, the Consumer Bank continued to focus on sustaining customer satisfaction in difficult market conditions. The introduction of competitive product offerings helped underpin customer acquisition. Retail deposits growth was adversely affected by tight liquidity conditions in the market.

In-line with the Bank's overall distribution strategy, there are now a total of 321 outlets: 150 male branches, 47 female branches, 15 Sales Centers and 95 TeleMoney centers. Additionally, the Bank has 11 SME centers and 3 Corporate branches.

Customers continue to utilize digital channels, with over 90% of all transactions now being conducted outside of the branches. 50% of non-cash transactions are carried out through mobile and internet banking, in keeping with the Bank's strategy of making services available to customers in a convenient and timely manner. The already successful mobile banking service continues to improve with new services being added throughout the year. The public website look and feel was also revamped to provide more informative features and to provide customers with a more intuitive experience.

The number of ATMs exceeds 1,260, and a program to upgrade the network saw 42 ATMs being replaced during the year. ATMs continued to be the most utilized of the non-branch channels and additional multi-function ATMs were added to enhance customer experience and improve service delivery.

Aligning with MADA strategy to move more customers away from using cash by using their debit cards on POS machines, the Bank has grown its POSs approaching more than 3,000 merchants with 22,000 terminals. Additionally, there have been several successful customer and merchant promotions to increase POS usage throughout the course of 2016.

ANB credit cards market share continues to build, creating a healthy portfolio in credit card receivables. Visa named ANB the fastest growing bank in credit card payment volume and this resulted from the improvement in product offering, product fulfillment and customer lifecycle management.

The Bank continued focusing its efforts on enhancing the overall customer service at all levels and channels. The Customer Experience department is key to raising service quality by enhancing systems and processes to improve efficiency and ensure a pleasant customer experience. E-learning has been used extensively to provide appropriate training and knowledge to customer-facing staff throughout the Bank. Periodic research and surveys are carried out to obtain customer feedback and perceptions and to measure service quality performance so as to have metrics and targets in place in order to meet customers' expectations.

The Bank also established a Consumer Credit Advisory unit consisting of certified credit advisors to provide customers with comprehensive details and advices related to all consumer Credit Products. This enables customers to make informed decisions regarding their financial circumstances and ability to fulfill their obligations.

The Consumer bank underpins all its products and services in accordance with the 'trilogy' defined in the Bank's Strategy Plan, viz. to sell the right products and services to the right customer segments via the right channels throughout their financial services cycle.

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

London Branch remains an important international outlet for the Bank and adds value to its client base. In 2016 operations continued to be bolstered by the UK residential and commercial Real Estate sectors which constituted an important attraction to Saudi investors, especially in light of the fall in the value of Sterling.

Conservative and selective growth continues to be the Branch's strategy, while focusing on supporting the Bank's Saudi-centric businesses in Private Banking, Trade Finance, Corporate Banking and Treasury.

During the year, the Branch celebrated the milestone of 25 years of operation, following its establishment in 1991.

Corporate Bank

ANB's Corporate Bank provides comprehensive relationship coverage, to ensure quality services and responsiveness to its top-tier corporate clients.

In the current challenging economic environment, the Corporate Bank has continued to adopt a cautious and conservative approach to businesses, with lending guidelines that match enhanced risk assessment standards. The Corporate portfolio and businesses are managed prudently, ensuring strength and diversity of the portfolio across a broad spectrum of industries and groups. Furthermore, the portfolio quality is robust with low level of non-performing loans, reflecting the Bank's strong credit discipline and a proactive risk management approach.

ANB continues to earn the trust and confidence of its corporate clients, by consistently supporting and building long term relationships. Its objectives include support to the development of major projects of strategic importance to the Kingdom.

The Corporate Bank continues to innovate and provide tailored solutions in order to meet evolving customer needs, 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. Customer portfolio is characterized by a strong base with excellent credit quality. Despite challenging environment, Commercial Bank continued to achieve strong results from all perspectives. The focus continued on strengthening existing relationships, expanding midsize customer's base through focusing on marketing to the bank's customers' suppliers and customers and diversifying the range of banking products and services offered.

Small and Medium Enterprises (SME)

The Bank continues to pursue its strategy to establish a meaningful presence in the SME segment and this closely aligns with the Government's stated priority to grow the sector. There are now 12 SME Sales and Service Centers across 11 cities in the Kingdom with plans in place to continue to grow this presence.

Specific products have been developed covering the borrowing, deposit and transactional banking requirements of the SME segment. The Bank remains committed to become a prominent provider of financial solutions to SMEs, with the active support of the Kafalah program and other governmental authorities engaged in the promotion of SMEs in the Kingdom.

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 Shariah-compliant products that provide financial solutions to customers. In 2016, a range of finance and investment products were successfully developed in accordance with Shariah guidelines.

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

Shariah affairs: It reviews the activities of business units and affiliates to ensure compliance with Shariah board guidelines. During 2016, the Shariah board reviewed compliance reports and approved a number of new products and transactions.

Training: It trains bank employees in Islamic banking and Shariah-compliant products.

Branch conversion: 2 branches/sections were opened, and 1 conventional branch was converted to be a dedicated Islamic branch. In total, 184 branches, including 45 ladies sections, representing 93% of ANB's retail branch network, are now dedicated to provide Shariah-compliant products and services.

Treasury

Despite the difficult liquidity and funding challenges in the local banking sector experienced throughout the year, Treasury contributed significantly to the Bank's overall performance.

A conservative strategy on asset building and allocation, along with pro-active management of both interest rates and foreign exchange as well as cross-selling efforts have all contributed to Treasury's performance in 2016. The increase in net interest income and fee based income from competitive and efficient services to customers on Treasury products also contributed significantly.

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 2016, amid a challenging housing market. The Company continues to be a leader in developing home finance industry. The 2017 outlook for SHL is promising, despite expected challenges in the market with moderate growth predicted resulting in a stable operating performance.

ANB/AIG/MetLife Alico Insurance joint venture

During 2016, ANB's joint venture with AIG and MetLife-Alico, which offers general and personal lines of insurance products, remained on track to achieve its business plan. ANB Insurance Agency, the 100% owned insurance agency, continued to improve its distribution coverage reaching out to ANB customers, across 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 during 2016 against a backdrop of a very challenging and highly competitive construction and contracting market.

It is expected that 2017 will also be a challenging year with the business environment continuing to be highly dependent on increased contracting and construction activity.

ANB Invest

ANB Invest is a Closed Joint Stock Company offering brokerage, investment banking, asset management and custody 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/TASI). Continued depression of oil prices during 2016 had a negative effect on the TASI and market turnover and this impacted the brokerage revenues significantly. The Order Management System was significantly enhanced by introducing Mobile and Tablet Apps for both Android and Apple users.

Asset management is the other significant contributor to the total revenue of the company. Revenues from Asset management were down compared to 2015, as management fees from local equity funds were impacted due to decline in TASI index, and a one-time fee received in 2015 from a private placement fund. To increase revenue streams from management fees, a Sharia-compliant IPO Equity Fund was launched and attracted new Money Market and Equity DPMs resulting in Assets under Management increasing by almost 39%, from SR 4.64 billion to SR 6.46 billion by end September 2016.

Two rights issues for listed companies were completed. ANBI acting as a Lead Manager for Al Wataniya Company for an amount of SAR 100 million and Co-underwriter for Takween Company for an amount of SR 300 million.

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:

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.
- Performs independent risk reviews periodically to validate effectiveness of the credit management system.

Business Review

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.
- Enhances market and liquidity risk management policies and procedures to meet regulatory requirements, which include recently updated Basel regulations.

Operational Risk

- Develops operational risk management strategies in accordance with corporate governance standards and industry best practices.
- Promotes and enhances the effectiveness of operational risk management throughout the bank.
- Identifies, assesses, monitors, and reports operational risks across Bank's activities.
- Continues to work towards implementing requirements of the Basel advanced measurement approach.

Business continuity

- Develops business continuity policies and procedures for the Bank in line with industry standards.
- Formulates business continuity plans to enable the Bank to continue its critical operations in the event of disruption to normal operations.
- Tests the business continuity plans through a series of exercises.
- Promotes awareness and understanding of business continuity among the Bank's staff.
- Conducts training for business continuity teams.

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.
- Monitors regulatory limits and submits reports to SAMA periodically.

E-Banking Risk

- Monitors effectiveness of E-Banking risk management processes and controls.
- Assesses the impact of internal and external risk factors on E-Banking processes.
- Coordinates implementation of E-Banking regulatory requirements.
- Updates management on the status of E-Banking controls and compliance with regulatory requirements.

Fraud Management Division

- Identifies fraud trends and conducts fraud risk assessment for key functions in the Bank, in order to mitigate the identified risks.
- Recommends corrective actions to combat and prevent frauds and ensures implementation of major corrective actions and recommendations.
- 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.

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

The Bank aims to be compliant with all laws, rules and regulations of relevant legislative bodies and financial regulators in all jurisdictions in which it operates. Such a commitment starts with the Board of Directors

and Senior Management and is embedded within the Bank's culture across all Business and Support units. The Bank is committed to protect its reputation and credibility, thereby protecting shareholders and depositors and providing safeguards against sanctions. The Bank's Board has a collective responsibility for managing compliance risks across the group, and is supported by an Audit Committee, which oversees an independent Compliance and AML Group.

In 2016, the Bank transitioned to a Group Compliance Model whereby the Compliance and AML Group oversees and reports Compliance and AML matters within the Bank's subsidiaries and London Branch. Business and Support Units management are responsible for managing compliance risks at a specific unit level, assisted by dedicated compliance officers. All employees are expected to carry out their duties in compliance with laws, regulations, and ethical standards. The Bank has adopted a Compliance Policy, and an Annual Compliance Manual and Program to assist business and support units effectively manage their compliance risks. This is complemented by a robust monitoring program and a regular reporting cycle to the Board Audit Committee, thereby providing reliable objective assurance to the Board.

Information Technology

Technology plays a significant role in the way customers interact with the Bank. Innovation in digital technologies is dramatically changing the way our customers use banking services and underpins the goal in the Strategy Plan to provide customers with access to products and services in a convenient and timely manner, regardless of where they are. During 2016, projects were initiated to enhance the technology for remittances, trade finance and to add new services to the electronic channels. Prepaid card services and contactless cards were also launched.

Along with the benefits that technology brings, it also exposes the Bank to external threats of unauthorized access and cyber-attack. The Bank has designed and implemented a holistic information security architecture based on a "defense-in-depth" principle, using multiple layers and types of security protection. This strategy coupled with effective processes and controls provide a secure and stable environment for our customers to transact their business. As new technologies and channels are introduced, the focus will remain on ensuring that risk management, security and stability are given appropriate attention in addition to the customer and business requirements.

Human Resources

During 2016, the Human Resources Group continued to perform the pivotal role of resourcing and developing skilled professionals for all business and support units. Saudization, as in previous years, remained an important priority.

The Bank continued to utilize the Executive Trainee program to attract highly educated Saudi university graduates from local and international universities, including, for the first time, a batch of female graduates. A number of qualified Saudi men and women, sourced both internally and externally, have been appointed to leadership positions during the year.

2016 saw a significant increase in the provision of e-learning facilities to ensure the ongoing development of employees and the rolling-out of a number of automated personnel services.

Social Responsibility

The Bank recognizes its role in the community and that it is in a unique position to use its capabilities and resources to make a positive contribution beyond its core business.

During 2016, the Bank undertook various activities across the three key pillars of its Corporate Social Responsibility policy: social and environmental, economic and in its employment practices.

ANB sponsored and supported a number of events and organizations in areas of health, culture and education. A number of training programs were also sponsored including those of the Public Pension Agency.

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