

Arab National Bank
Annual Report 2017





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



**CROWN PRINCE, DEPUTY PRIME MINISTER,
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, 2017.

2017 was a year in which the Bank achieved very satisfactory results despite the continuing challenges encountered by the economy particularly in the early part of the year. Net income rose to SR 3.03 billion, a growth of 6.1% compared to the previous year, while the balance sheet stood at SR 171 billion by year end, a marginal increase over 2016. The Bank's conservative approach to managing credit risk while focusing on controlling cost has helped performance during the difficult period of lower oil prices and subdued economic growth. Additionally, the balance achieved between Retail and Wholesale banking has proven to be a useful mitigant to the downturn in economic activity.

The Bank is fully aware of the pivotal role played by the financial services sector in achieving the ambitious goals of Vision 2030 and the need to support the diversification of the economy away from reliance on oil. The Bank's strategy is closely aligned with key focus areas of the National Transformation Program such as Public Private Partnership, SME growth and the planned emphasis on private housing ownership by Saudi citizens. Banking transactions via digital channels grew by 20% in the year and the ongoing digital transformation program is increasing the options available to customers in how they choose to interact with the Bank.

Branches continue to remain a key part of service delivery and that growth in digital channels no way detracts from the human touch desired by some customer segments. The Bank is striving to achieve a first class customer experience, regardless of the manner in which the customer chooses to engage.

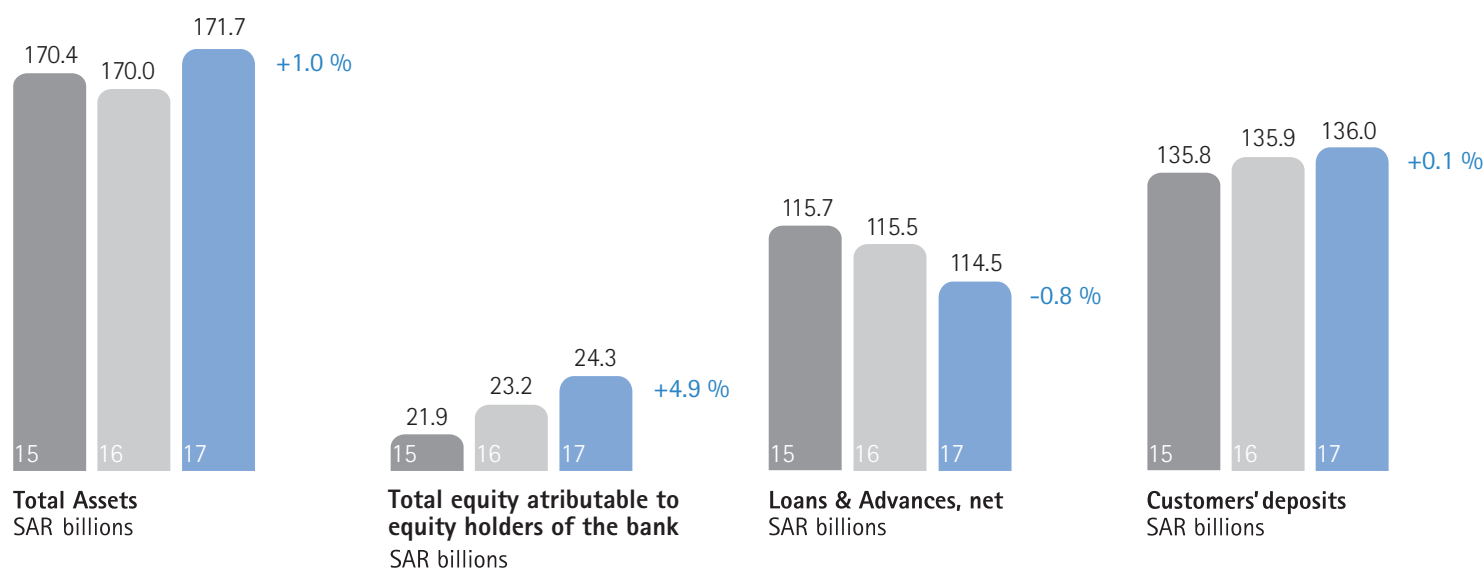
The Board recognizes the absolute criticality of having appropriate risk management, compliance and information security regimes in place and a zero tolerance environment exists for non-conformance. The threat posed by cyber-crime has become a fact of life at both national and industry level, and while the threat will never be eradicated, the Bank endeavors to have the best technical controls in place.

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, 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 and their continued support of the banking sector.

Finally, I wish 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 look forward to the future with great optimism.

Salah R. Al-Rashed
Chairman

Financial Highlights



SAR Millions	2017	2016	2015	2014	2013
Net Commission income	4,665	4,145	3,845	2,623	3,375
Net Income Before Provisions for credit losses	4,176	3,580	3,540	3,359	3,079
Net Income attributed to equity holders of the Bank	3,027	2,854	2,964	2,875	2,522
Expense to Revenue Ratio	35.7%	38.9%	39.0%	38.3%	39.6%
Return on Assets (ROA)	1.8%	1.7%	1.8%	1.9%	1.8%
Return on Equity (ROE)	12.7%	12.6%	14.0%	14.5%	13.7%
Investments	32,321	25,548	33,294	33,941	28,331
Loans and Advances, net	114,543	115,512	115,656	104,180	88,785
Total Assets	171,702	170,009	170,421	164,668	137,935
Customers Deposits	136,048	135,907	135,761	129,740	106,428
Total Equity attributed to equity holders of the Bank	24,370	23,235	21,894	20,601	19,080

BBB+

Fitch Ratings

A²

Moody's

BBB+

Standard & Poor's

Director's Report

Directors' Report for the financial year ended December 31, 2017

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, 2017.

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 142 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 2017 financial year amounted to SAR 3,027 million compared to SAR 2,854 million in 2016, an increase of 6.1%. Net special commission income increased by 12.5% to SAR 4,665 million compared to SAR 4,145 million in the previous year, while fees and commission income decreased by 10.1% to SAR 840 million from SAR 935 million in 2016. This resulted in total operating income increasing by 8.9% from SAR 5,854 million in 2016 to SAR 6,378 million in the current financial year.

Operating expenses before provisions totalled SAR 2,220 million compared to SAR 2,261 million in 2016, representing a decrease of 1.8%. The Bank continued to adopt conservative risk management policies to ensure it has sufficient provision coverage. Provision charge for credit losses was SAR 1,149 million compared to SAR 726 million in 2016 resulting in a non-performing loans coverage ratio of 161% as at December 31, 2017.

The Bank's loan portfolio amounted at year-end to SAR 114,543 million compared to SAR 115,512 million in 2016, a decrease of 0.8% while its investment portfolio increased to SAR 32,321 million from SAR 25,548 million in 2016, an increase of 26.5%.

Total assets and customer deposits as at December 31, 2017 amounted to SAR 171,702 million and SAR 136,048 million, respectively.

Equity attributable to equity holders of the Bank was SAR 24,370 million compared to SAR 23,235 million in 2016, an increase of 4.9%.

Financial Highlights

	SAR millions				
	2017	2016	2015	2014	2013
Loans and advances, net	114,543	115,512	115,656	104,180	88,785
Investments, net	32,321	25,548	33,294	33,941	28,331
Customers' deposits	136,048	135,907	135,761	129,740	106,428
Shareholders, Equity	24,370	23,235	21,894	20,601	19,080
Total assets	171,702	170,009	170,421	164,668	137,935
Total liabilities	146,636	146,084	147,789	144,029	118,747
Total operating income	6,378	5,854	5,781	5,441	5,039
Total operating expenses	3,375	3,025	2,862	2,591	2,551
Net Income	3,027	2,854	2,964	2,875	2,522

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*	4,194,712
Western Region	1,322,807
Eastern Region	860,424
Total	6,377,943

* 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 1,000 million (100 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) / Abdulmohsin Ibrahim Al-Touq / Nemeh Sabbagh

Shareholders

Saudi Shareholders 60%
Arab Bank Plc 40%

Executive Committee

Dr. Robert Eid – Chairman
Salah R. Al-Rashed
Khaled M. Saad Albawardi
Hesham Abdulatif Al-Jabr
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

Risk Committee

Mohammed A. Alghanamah – Chairman
Salah R. Al-Rashed
Khaled M. Saad Albawardi
Ahmad Wazie AL Qahtani
Abdulmohsin Ibrahim Al-Touq

Strategy Committee

Nemeh Sabbagh – Chairman
Ahmed A. Al-Akeil
Hesham Abdulatif Al-Jabr
Ahmad Wazie AL Qahtani
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 owned 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. The Bank owns 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2017.

ANB 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 SAMA to start its activities in insurance agency and related business on Jumada I 5, 1435H (corresponding to March 6, 2014). The company acts as a sole agent for its principal, MetLife –AIG–ANB Cooperative Insurance Company.

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 of lands and real estates and invest them through sale or rent in favour of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

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.

ANB Global Markets Limited

The Bank established on January 31, 2017 ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% ownership. The company's capital amounts to USD 50 thousands consisting of 50 thousands parts (at a nominal value of USD (1) per part). The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

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.

Director's Report

The Board proposed a dividend distribution as follows:

	SAR '000
2017 net income	3,026,972
Retained earnings from previous years	3,172,847
Total	6,199,819
Distributed as follows:	
Transferred to statutory reserve	(554,000)
Zakat and income tax for the period	(650,325)
Gross dividend distribution –Interim and proposed (39.6% of 2017 net income)	(1,200,000)
Retained earnings for 2017	3,795,494

Future Strategic Plans

The strategy is based upon achieving a balance between Retail and Wholesale banking, supported by a prudent risk culture and a focus on selective growth opportunities so that consistent and predictable earnings can be achieved.

The strategy is closely aligned to the economic environment and has been drawn up mindful of the goals and targets contained in the Government's Vision 2030. The Bank aims to be a key contributor in providing the services and products that will be an essential part of such a fundamental transformation program. Three such focus areas within the strategy are:

- Public Private Partnerships are planned for a number of key sectors such as health, transport and education and large infrastructure projects, previously funded by the government, will now be the joint responsibility of the public and private sectors. This provides significant opportunities in the project finance area and the Bank will compete for business in this sector. Vision 2030 targets foreign direct investment to grow from 3.8% to 5.7% of GDP and the Bank is investing to ensure that the right products and services are in place to assist the growing requirements of foreign investors entering the Saudi market.
- In support of the growth of SMEs, whose contribution to GDP is expected to grow from 20% to 35%, the Bank is expanding its footprint, and range of products and services provided, via dedicated SME Centers. These centers provide customized solutions covering financing, transaction banking and account services.
- The demographics of KSA with such a young population means that the provision of affordable housing is a key focus area for Government. The Bank is gearing itself to provide the new services and products to support such ambitious plans.

The Strategy also recognizes that technology changes continue at an ever increasing pace, significantly impacting the Bank and its customers. A Digital Transformation Program has been initiated to reflect the dynamics of the market and the increasingly sophisticated expectations of customers. The Strategy also recognizes the challenges that technology brings for fraudulent and criminal activity and endeavors to ensure that the best technical controls are in place.

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 basis for determining the intersegment operating income / (expenses) for the current year are consistent with the basis used for December 31, 2016. 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. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements.

Director's Report

The Group's total assets and liabilities as at December 31, 2017 and its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

(Figures in SAR '000)

2017	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	35,667,915	82,667,224	49,361,106	1,701,042	2,304,412	171,701,699
Investments in associates	-	-	-	-	637,222	637,222
Total liabilities	69,272,729	70,371,879	4,451,683	113,485	2,425,958	146,635,734
Operating income from external customers	2,052,326	3,905,732	124,303	167,666	127,916	6,377,943
Intersegment operating income/(expense)	337,524	(1,461,835)	1,012,976	-	111,335	-
Total operating income	2,389,850	2,443,897	1,137,279	167,666	239,251	6,377,943
of which:						
Net Special commission income	2,020,713	2,010,691	492,665	22,696	117,988	4,664,753
Fees and commission income, net	290,789	470,695	11,926	61,275	5,713	840,398
Impairment charges for credit losses and other provisions, net	217,654	931,136	-	-	-	1,148,790
Impairment charges for investments, net	-	-	5,970	-	-	5,970
Depreciation and amortization	115,209	5,702	3,576	2,258	94,634	221,379
Total operating expenses	1,675,952	1,452,735	99,950	93,469	52,438	3,374,544
Share in earnings of associates, net	-	-	-	-	30,659	30,659
Net income attributable to equity holders of the Bank	713,898	991,162	1,037,329	74,197	210,386	3,026,972
Net income attributable to non-controlling interest	-	-	-	-	(7,086)	(7,086)

Micro, Small & Medium Enterprises

Qualitative Disclosures

Micro, Small & Medium Enterprises (MSME) accounts are marketed and managed at ANB by its Commercial & Small and Medium Enterprises Banking (C & SME) Division. This is done through two business units within the Division.

The Small Business Unit was created in 2013 catering to all financial needs of the existing Micro and Small segment base of the Bank and to implement the strategic plan to attract and retain new business. The target market for this Unit are businesses with an annual turnover not exceeding SAR 30 million.

In addition, there is a Medium Banking Unit (MBU) within C & SME Division that target business entities with turnover between SAR 30 million to SAR 100 million. These business boundaries will be amended in line with the revised definition of MSMEs as advised by SAMA which comes into effect from January 2018.

Achievements

Establishing a meaningful presence in the MSME segment is a key strategic priority for the Bank and to this end, we have over the past three years expanded our distribution footprint by establishing 12 dedicated MSME centers across the Kingdom covering 10 cities. We offer our clients a range of facilities including non borrowing services that include short and medium term loans, trade services, account services, internet banking, utility bill payment, payroll services, point of sale merchant services and insurance. For the Micro and Small sub segments, the Bank offers customized solutions via Product Programs to cover a wide range of their financing requirements.

We are a leading supporter of the Saudi Industrial Development Fund (SIDF) Kafalah program and one of the top four banks supporting the Program. The Bank is also actively engaged with the SME Authority in participating with their developmental programs.

Building bench strength and knowledge pool is a key enabler for our MSME strategic plan. We currently have a staff in strength of 65 employees and we plan to add staff in 2018.

Staff training needs are identified at the start of the year based on assessed competency gaps. Appropriate programs both external and internal are then identified for the individual. Approximately 650 man hours of training were imparted to our MSME staff in 2017. In addition, we will also develop plans to upskill our MSME customers by conducting and/or sponsoring training courses in the area of financial and business management.

Future Outlook

We envisage ongoing growth in the MSME segment. We expect the growth to be more moderate than in the previous years and in selective industries and geographic segments.

We see both a profit opportunity and have a commitment to support the Government's plans to promote the MSME segment and break down the barriers that exist in their access to bank finance.

We are committed to play our part in facilitating the Government's initiatives to increase the GDP contribution of MSMEs and create greater employment opportunities. We will continue to undertake initiatives that ease the access to finance for MSME by introducing new research based product propositions that meet the borrowing and non-borrowing financial servicing needs of the segment. We also have plans to expand our coverage model to other key markets of the Kingdom.

We remain committed to support the Kafalah program, partake in initiatives to promote the MSME segment as identified by the SME Authority and other Government institutions.

Director's Report

Quantitative Disclosures

Details	As at 31 December 2017			As at 31 December 2016		
	Small	Medium	Total	Small	Medium	Total
Loans to MSMEs – on balance sheet (SAR millions)	881.9	1,743.9	2,625.8	726.3	1,312.2	2,038.5
Loans to MSMEs – off balance sheet (SAR millions)	758.7	1,220.5	1,979.2	635.5	1,053.8	1,689.3
On balance sheet loans to MSMEs as a percentage of total on balance sheet loans	0.76%	1.49%	2.25%	0.61%	1.11%	1.72%
Off balance sheet loans to MSMEs as a percentage of total off balance sheet loans	2.38%	3.83%	6.21%	1.87%	3.12%	4.99%
Number of loans (on and off balance sheet)	1,753	1,858	3,611	1,599	1,407	3,006
Number of customers (on and off balance sheet)	935	317	1,252	896	277	1,173
Number of loans guaranteed by Kafalah program (on and off balance sheet)	434	-	434	339	-	339
Amount of loans guaranteed by Kafalah program (on and off balance sheet) - (SAR millions)	325	-	325	265	-	265

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
Article nine: Profits distribution	The Bank's Articles of Association specifies the percentage of net profits to be distributed to shareholders after deduction of statutory reserve and other reserves.	The distribution percentage is subject to approval of the supervisory and regulatory authorities.

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 Authority, Capital Market Authority and the Companies Act issued by the Ministry of Commerce and Investment in the Kingdom of Saudi Arabia.

Sukuk

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.

Director's Report

Share Capital

As at December 31, 2017, 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 as well as proposing dividend distribution and approving appointment of general managers and head of internal audit. 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, 2017 that were appointed by Arab Bank PLC were Dr. Bassem Ibrahim Awadallah, and Messrs. Nemeh Sabbagh, Mohammed A. Alghanamah, and Dr. Robert Eid (Managing Director).

As at December 31, 2017, 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	Ahmed Abdullah Al-Akeil	Board member (independent) *▲
4	Khaled M. Saad Albawardi	Board member (independent) *▲
5	Hesham A. Aljabr	Board member (independent) *
6	Ahmed Wazie Alqahtani	Board member (non-executive)
7	Abdul Mohsen Ibrahim Al Touq	Board member (independent) *
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 1/4/2017, Abdul Mohsen Ibrahim Al Touq was elected a member of the Board to replace Eng. Rashid Saad Al-Rashid.

Brief description of the Board members and Board Committees members' qualifications:

BOARD MEMBER	POSITION	ACADEMIC QUALIFICATIONS	PRACTICAL EXPERIENCE
Salah Rashed Al-Rashed	<ul style="list-style-type: none"> - Chairman of the Board - Member of Executive Committee - Member of the Nomination and Compensation Committee - Member of Risk Committee 	Bachelor degree of Engineering from Washington University	<p>Executive manager and partner of Rashid Abdulrahman Al-Rashid and Sons Co.</p> <p>Has a wide and extensive experience in finance, business, management, commercial and industrial investment. He was a member of the Consulting Authority of the Supreme Economic Council, Board member for the Chamber of Commerce & Industry, member of the Finance Committee and head of the Investment Committee. Also, he was the chairman and member of many joint stock and limited liability companies.</p>

Director's Report

Brief description of the Board members and Board Committees members' qualifications:

BOARD MEMBER	POSITION	ACADEMIC QUALIFICATIONS	PRACTICAL EXPERIENCE
Ahmed Abdullah Al-Akeil	<ul style="list-style-type: none"> - Deputy Chairman of the Board - Chairman of the Audit Committee - Member of the Nomination and Compensation Committee - Member of the Strategy Committee 	Masters in Economics and Mathematics from Texas University, USA	Has a long experience in management and banking, and attended many courses in finance, investment and projects assessment held by International Development Bank, California University and JP Morgan Bank. Also, he was a lecturer at the Institute of Public Administration, general manager for the Public Investment Fund, general manager for the Real Estate Company, and Chairman of the Board for Arab Bank for Economic Development in Africa, and a Board member in a number of joint stock companies.
Khaled M. Saad Albawardi	<ul style="list-style-type: none"> - Board member - Member of Executive Committee - Member of the Risk Committee - Chairman of the Nomination and Compensation Committee 	Bachelor degree in Industrial Management from King Fahad University for Petroleum and Minerals	<p>Has a long experience in management, investment and trade. He was Deputy Chairman of the Board of the Chamber of Commerce and Industry in Eastern Region, Chairman and Board member of many joint stock companies, committees and social events; in addition to being the executive officer of Al Bawardi Group and a board member of the Ports General Authority and member for a number of committees and councils for the Eastern Region Amara.</p> <p>He occupied several board of directors positions, such as being the Board member of the Civil Aviation Authority, Railways Public Authority, member of the Consultation Council for the Minister of Labor, Board member for the General Organization for Social Insurance (GOSI), member of the investment committee of GOSI, Board member for the Basic Chemical Industries Co. and Board member of the Arab Company for Paper Manufacturing.</p>
Hesham A. Aljabr	<ul style="list-style-type: none"> - Board member - Member of Executive Committee - Member of the Strategy Committee 	Management and Human Sciences / (Secondary)	Has extensive experience in management and investment, and a Board member at Aljabr Holding Co. and Nattily Company for Furniture and Internal Design and CEO for KIA Co. Further, he was a member of the Gulf Commercial Bank, the United Company for Gas Transportation, the Advanced Electronic Medical Limited Co. and he is a member of the Saudi Chinese Business Council and the Saudi Chinese Friendship Society. Experienced in finance and investment and attended many courses in marketing, sales and finance and attended a symposium in governance.

Director's Report

Brief description of the Board members and Board Committees members' qualifications:

BOARD MEMBER	POSITION	ACADEMIC QUALIFICATIONS	PRACTICAL EXPERIENCE
Ahmed Wazie Alqahtani	<ul style="list-style-type: none"> - Board member - Member of the Strategy Committee - Member of the Risk Committee 	Bachelor degree in Finance from King Fahad University for Petroleum and Minerals	Member of Hassanah Investment Company owned by the General Organization for Social Insurance, and has a wide experience in investments.
Abdul Mohsen Ibrahim Al Touq	<ul style="list-style-type: none"> - Board member - Member of the Risk Committee 	Bachelor degree in Business Administration from King Saud University	Chief Executive Officer of Al Touq Co. and has an extensive experience in management, real estate investment, energy, communications and financial services. Member of the Young Presidents Organization and the Young Arab Leaders. He is a Board member in many leading companies inside and outside the Kingdom.
Nemeh Sabbagh	<ul style="list-style-type: none"> - Board member - Member of the Strategy Committee 	Bachelor degree in Economics from Austin University, Masters in International Economics from Johns Hopkins University and Masters in Financial and Banking Sciences from Chicago University	Board member of Arab National Bank representing Arab Bank (PLC) Jordan; and he currently occupies CEO position at Arab Bank (PLC), has long experience in banking. He worked in International Bank in USA, Chicago First Bank, Kuwait Industrial Bank and was the general manager for the International Banking Group in National Bank of Kuwait. He was CEO of Arab National Bank from 1998 to 2005 and CEO of Med Bank in Lebanon from 2006 to 2009.
Mohammed A. Alghanamah	<ul style="list-style-type: none"> - Board member - Member of Executive Committee - Chairman of the Risk Committee 	Bachelor degree in Mathematics from King Saud University, Diploma in Programming	Board member of Arab National Bank representing Arab Bank (PLC) Jordan, has a long experience in banking business. He is currently the head of the Credit department in Arab Bank (PLC) Jordan.
Dr. Bassem Ibrahim Awadallah	<ul style="list-style-type: none"> - Board member 	Masters and PHD degrees in International Relations and International Economy from George Town University in USA	ANB Board member representing Arab Bank (PLC) Jordan; and he is currently the Deputy Chairman of the Board for Arab Bank (PLC) Jordan, has long experience in banking and investment. Occupied many official positions in Jordan and he was the economic consultant for the Jordanian Minister of Finance.
Dr. Robert M. Eid	<ul style="list-style-type: none"> - Managing Director - Chief Executive Officer - Chairman of the Executive Committee - Member of the Strategy Committee 	PHD degree in Finance and Banking Sciences from Sorbonne University in France	Has a wide experience in the banking business in a number of international banks; and he is currently a Board member at Metlife-AIG-ANB Cooperative Insurance, Board member at Arab National Investment Co. and Saudi Home Loans Co; He was head of the Overseas Branches and Subsidiaries Network at National Bank of Kuwait, Managing Director at National Bank of Kuwait International in London, Deputy Board Chairman at National Bank of Kuwait (Lebanon), Board member at Qatar International Bank and board member at the Arab Bankers Association in London.

Director's Report

Brief description of the Board members and Board Committees members' qualifications:

BOARD MEMBER	POSITION	ACADEMIC QUALIFICATIONS	PRACTICAL EXPERIENCE
Salah A. Al Ismail	- Member of the Audit Committee	Masters in Business Administration from Saint Edward University – Texas in USA	Member of the Audit Committee at Arab National Bank, and occupied a number of committees in many companies. He has a wide experience in finance, accounting, management and organization.
Mohammed A. Al Omran	- Member of the Audit Committee	Masters degree in Science from Oregon University in USA.	Audit Committee member at Arab National Bank, a chartered financial analyst, and a member in a number of committees. He has a long experience in different banking sectors inside and outside the Kingdom.

Four regular Board meetings were held during 2017 and were attended as follows:

Date	Attendance record	No. of attendees
March 23, 2017	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, Bassem Ibrahim Awadallah, Nemeh Sabbagh and Mohammed A. Alghanamah.	10
June 7, 2017	Salah Rashed Al-Rashed, Robert Eid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq, Bassem Ibrahim Awadallah, Nemeh Sabbagh and Mohammed A. Alghanamah.	10
September 27, 2017	Salah Rashed Al-Rashed, Robert Eid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq, Bassem Ibrahim Awadallah, Nemeh Sabbagh and Mohammed A. Alghanamah.	10
December 3, 2017	Salah Rashed Al-Rashed, Robert Eid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq, Bassem Ibrahim Awadallah, Nemeh Sabbagh and Mohammed A. Alghanamah.	10

An Extraordinary General Assembly meeting was held on March 23, 2017, and following are name of Board members who attended this meeting:

Seq	Name	Position
1	Salah Rashed Al-Rashed	Chairman of the Board
2	Robert Eid	Managing Director (executive)
3	Ahmed Abdullah Al-Akeil	Board member
4	Khaled M. Saad Albawardi	Board member
5	Hesham Abdullatif Al-Jabr	Board member
6	Ahmed Wazie Alqahtani	Board member
7	Rashid Saad Al-Rashid	Board Member at the previous session

Directors' membership on the Boards or managers of other companies inside or outside the Kingdom

Directors who were board members or managers in other companies inside or outside the Kingdom as at December 31, 2017 were as follows:

Director	Board membership in companies (inside or outside the kingdom)
Salah Rashed Al-Rashed	<ul style="list-style-type: none"> - Saudi White Cement Company - Tech Investment Company - Saudi Services for Electro Mechanic Works - Golden Chicken - Care & Science Medical Co. - Al-Rashid Trading & Contracting Co. - Al-Rashid Abetong Company Limited - Riyadh Cement Company - Al-Rashed Food Company - Al-Rashed & Al-Omran Co. - Arabian Industries Company - Rashed Abdulrahman Alrashed & Sons Company
Abdul Mohsen Ibrahim Al Touq	<ul style="list-style-type: none"> - Altouq Company - Daraltamleek Company - Saudi Company for Hardware - Saudi Metal Coating Company Limited - Saudi Telecommunication Systems Company - Altouq Holding Company - Saudi Networkers Services Company - Arabian Industries Company - Steel Products Company Ltd. - Eathos Ltd.
Ahmed Abdullah Al-Akeil	<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"> - M.& A. Albawardi Co. - Attken Steel Engineering Factory - Attken International Co. - Khaled M. Albawardi Holding Co.Ltd. - International Transport & Warehousing Co.Ltd. - Saudi Development & Export Services Co.Ltd. - Marine Inspection & Loss Adjuster Co.Ltd. - Materials Survey & Inspection Co.Ltd.
Hesham Abdullatif Al-Jabr	<ul style="list-style-type: none"> - Nattily Company for Furniture and Internal Design - Al Jabr Holding Company - Nama Almostaqbal Real Estate Company - Khuta Alkhair

Director's Report

Director	Board membership in companies (inside or outside the kingdom)
Ahmed Wazie Alqahtani	
Robert Eid	<ul style="list-style-type: none"> - Saudi Home Loans - MetLife - AIG - ANB Cooperative Insurance Company - Arab National Investment Company
Mohammed A. Alghanamah	<ul style="list-style-type: none"> - Arab Bank (PLC) (Jordan) - Arab Bank (PLC) - Syria - Islamic International Arab Bank (Jordan) - AB invest (Jordan) - Arab National Leasing Company (Jordan)
Nemeh Sabbagh	<ul style="list-style-type: none"> - Arab Bank (PLC) (Jordan)
Bassem Ibrahim Awadallah	<ul style="list-style-type: none"> - Arab Bank (PLC) (Jordan) - AL Baraka Banking Group (Kingdom of Bahrain) - Tomoh Advisory (United Arab Emirates)

Principal Board Committees

The Board formed a number of committees, following are the main committees with their own specific terms of reference, functions and current members.

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 2017, the executive committee held 18 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 2017, the executive committee comprised of Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Khaled M. Albawardi, Mohammed A. Alghanamah and Hesham Abdullatif Al-Jabr (replaced Ahmed Abdullah Al-Akiel effective 1/4/2017) (as members).

The Executive Committee held (18) meetings during 2017, following is the attendance record for these meetings:

Date	Attendance record	No. of attendees
16/01/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Albawardi, Mohammed A. Alghanamah.	5
07/02/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Albawardi, Mohammed A. Alghanamah.	5
21/02/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Mohammed A. Alghanamah.	4
08/03/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Albawardi	4
23/03/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Albawardi, Mohammed A. Alghanamah.	5
11/04/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
03/05/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5

Date	Attendance record	No. of attendees
22/5/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
07/06/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
19/07/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
21/08/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Mohammed A. Alghanamah.	4
27/09/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
09/10/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
24/10/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
14/11/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
28/11/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
03/12/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah.	5
19/12/2017	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr.	4

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed in 2010. It is comprised of three non-executive Board members: Khaled M. Saad Albawardi (Chairman) (Independent), Salah Rashed Al-Rashed and Ahmed Abdullah Al-Akiel (Independent member). The committee has the authority to review and recommend to the Board for its approval amendments to the Bank's compensation policy and practices and submit related recommendations to the Board for its approval. 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, and nominate senior executives through studying their qualifications and submit related recommendations to the Board. The committee held 4 meetings in 2017.

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.

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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, with consideration to each of the Board members' performance during the year. According to the policy above, annual remuneration and compensation of non-executive and independent Board members were SAR 3,680 thousand, and for executive members SAR 400 thousand. Attendance allowances to the non-executive and independent Board members were SAR 485 thousand, and for executive members SAR 100 thousand. Expense allowances to non-executive and independent Board members including travel and accommodation expenses were SAR 531 thousand. Salaries paid during the year to the six senior executives including CEO and CFO were SAR 16,032 thousand. Their allowances and compensation amounted to SAR 3,318 thousand and their variable compensation were SAR 18,005 thousand while their incentive plans amounted to SAR 2,610 thousand. Remuneration paid to members of the audit committee amounted to SAR 600 thousand and their attendance allowances to SAR 169 thousand.

The Nomination and Remuneration Committee held (4) meetings during 2017, following is the attendance record for these meetings:

Date	Attendance record	No. of attendees
16/01/2017	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
07/06/2017	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
14/11/2017	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
19/12/2017	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3

Audit Committee

The Audit Committee assists the Board in reviewing the effectiveness of the Bank's internal control processes, ensures accuracy and correctness of the Bank's financial statements, closing accounts and adherence to the regulatory requirements and accounting standards. 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. The committee studies the risk group reports, discuss them with concerned officials and make relevant recommendations.

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 three independent members, out of which the chairman is a board member and two non-board members. The Committee met 10 times during 2017. 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. The committee discusses its annual report with the Board at the end of the year.

During 2017, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman – independent Board member), Mr. Saleh A. Al- Ismail and Mr. Mohammed A. Alomran (members from outside the Board).

The Audit Committee held (10) meetings during 2017, following is the attendance record for these meetings:

Date	Attendance record	No. of attendees
17/01/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
20/02/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
24/04/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
01/06/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail	2
11/06/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
18/07/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
04/10/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
26/10/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
20/11/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
24/12/2017	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3

Strategy Committee

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

- Mr. Nemeh Sabbagh (Chairman);
- Mr. Ahmed Abdullah Al-Akiel;
- Dr. Robert Eid;
- Mr. Hesham Abdullatif Al-Jabr; and
- Mr. 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, communication and integration of the Bank's strategic plan and its consistency with current conditions with consideration to the future expectations. The committee sets forth the process of strategy implementation and monitoring.

Also, 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.

The Strategy Committee held one meeting in 2017, dated March 1, 2017; and following is the attendance record for this meeting:

Date	Attendance record	No. of attendees
01/03/2017	Rashid Saad Al-Rashid, Dr. Robert Eid, Nemeh Sabbagh, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani	5

Director's Report

Risk Committee

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

- Mr. Mohammed A. Alghanamah (Chairman)
- Mr. Salah Rashed Al-Rashed
- Mr. Khaled M. Saad Albawardi
- Mr. Ahmed Wazie Alqahtani
- Mr. Abdul Mohsen Ibrahim Al Touq

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 is exposed, e.g. credit, market, liquidity, and operational risks.
- Ensuring that the Bank has well-defined risk management policies covering all key risks inherent to its activities.

- Review assessment of the Risk Management Head and require management to ensure that the staff involved in risk management possesses sound expertise and knowledge to discharge their responsibilities as required.
- Ensuring that the Bank's credit and market risks exposures are maintained at prudent levels.

The Risk Committee held two meetings during 2017, following is the attendance record for these meetings:

Date	Attendance record	No. of attendees
07/06/2017	Mohammed A. Alghanamah, Salah Rashed Al-Rashed, Khaled M. Saad Albawardi, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq	5
03/12/2017	Mohammed A. Alghanamah, Salah Rashed Al-Rashed, Khaled M. Saad Albawardi, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq	5

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

1) Major Shareholders	At beginning of year January 1, 2017		change during the year		At end of year December 31, 2017	
Name	Number of shares	Ownership %	Number of shares	Change %	Number of shares	Ownership %
Arab Bank PLC	400,000,000	40.00	-	-	400,000,000	40.00
General Organization for Social Insurance (GOSI) (*)	120,326,376	12.03	1,321,971	0,13	121,648,347	12.16
Rashed Abdul Rahman Al-Rashed and Sons Co.	99,685,430	9.97	-	-	99,685,430	9.97
Al-Jabr Investment and Real Estate Co.	56,542,095	5.65	-	-	56,542,095	5.65

(*)Including Hassanah Investment Company which is wholly owned by General Organization for Social Insurance.

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

Name	Number of shares at beginning of year 01/01/ 2017	Number of shares at end of year 31/12/ 2017	change during the year	Change %
Salah Rashed Al-Rashed	7,093	9,882	2,789	39.32
Ahmed Abdullah Al-Akeil	135,465	135,417	(48)	(0.04)
Khaled M. Saad Albawardi	33,307	33,307	-	-
Hesham Abdullatif Al-Jabr	12,014	12,014	-	-
Abdul Mohsen Ibrahim Al Touq	-	200	200	100
Ahmed Wazie Alqahtani*	-	-	-	-
Nemeh Sabbagh**	-	-	-	-
Mohammed A. Alghanamah**	-	-	-	-
Robert Eid**	-	-	-	-
Bassem Ibrahim Awadallah**	-	-	-	-
Obaid A. Al Rasheed	28,500	28,500	-	-
Relatives of Zuhair S. Al Herbish	70,200	70,200	-	-

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

* Represents GOSI and do not own any shares in Arab National Bank.

** Board members representing Arab Bank PLC do not own any shares in Arab National Bank.

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 Through the Audit reports that were issued. The updates include description of the internal controls gaps noted and the corrective action plan to adequately address 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 through different communication channels. 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.

The Bank's requests for the shareholders' register and the dates of such requests

Date of request	Reason for request	No. of requests
31/12/2017	Year-end and annual report	1
March 2017	File for the General Assembly File for dividend distribution	2
31/3/2017	Quarterly report	1
30/6/2017	Quarterly file and dividend distribution file	2
30/9/2017	Quarterly file	1
15/12/2017	A file for and to be informed of any change in Shareholders or (requests of foreign banks)	1
Total		8

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Credit Rating

During 2017, 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	BBB+

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.

Human Resources

Total number of staff at the end of 2017 was 4,170 compared to 4,403 at the end of 2016. The Saudization ratio at the end of 2017 was 88%.

Donations and Social Responsibilities

The Bank recognizes its role in society and its unique position to harness its capabilities and resources to make a positive contribution outside its core area of activity. During the year 2017, the Bank sponsored and supported a number of programs and activities in the three main areas of the Bank's social responsibility policy: social and environmental responsibility, economic responsibility and employment practices. These activities included supporting the efforts of the Kingdom's government to protect Saudi youth against drug abuse and supporting a number of health initiatives including diabetes, Alzheimer's, Down's syndrome and Parkinson's disease, and a number of social initiatives such as the Women's Committee for Community Development.

In addition, the Bank continues to extend its support to charities, educational institutions and other areas of support. In 2017, the Bank allocated SR 8 million for these purposes.

Statutory Payments

Statutory payments during the year 2017 were as follows:

	SAR 'Millions
Zakat attributable to Saudi shareholders	390
Income tax payable by the non-Saudi shareholders	260
Withholding tax	7
GOSI	57

Penalties and Regulatory Restrictions

Some immaterial penalties were charged during 2017 as a result of operational activities. The details of these penalties are as follows:

Saudi Arabian Monetary Authority's penalties

SAR '000

Subject of Violation	Subject of Violation upon publication	Number of violations	Total amount of penalties
Violation to instructions of banking security procedures	Violation to SAMA supervisory instructions	1	5
Violation to SPAN electronic service level instructions	Violation to SAMA supervisory instructions	1	15
Violation to instructions of SPAN organization of usage	Violation to SAMA supervisory instructions	1	363
Violation to SAMA outsourcing instructions	Violation to SAMA supervisory instructions	1	525
Violation to SARIE system instructions	Violation to SAMA supervisory instructions	1	5
Violation to SAMA instructions related to exerting due diligence in AML/CTF	Violation to SAMA supervisory instructions	1	25
Others	Violation to SAMA supervisory instructions	7	83
Total		13	1,021

SAR '000

- Capital Market Authority's penalties
- Other penalties

100
876

Director's Report

Conflicts of Interests

Following is a statement of the related parties' transactions as shown in the 2017 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, 2017 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	25,124
Due to banks and other financial institutions	537,129
Commitments and contingencies	2,124,518
Directors, key management personnel, other major shareholders and their affiliates:	
Loans and advances	4,380,399
Customers' deposits	9,674,730
Commitments, contingencies and others	980,824
Purchase of equipment	45
Bank's mutual funds:	
Investments	41,257
Loans and advances	164,210
Customers' deposits	523,312
Associates:	
Loans and advances	2,359,588
Customers' deposits	132,854
Commitments and contingencies	46,244
Local sukuk	10,000
Insurance contracts (2017-2018)	1,826

b) Income and expenses transactions with related parties included in the consolidated financial statements for the year ended December 31, 2017 are as follows:

	SAR '000
Special commission income	292,067
Special commission expense	(220,382)
Fees and commission income	37,482
Directors' remuneration	(6,490)

Director's Report

Miscellaneous expenses detailed as follows:

SAR '000

Nature of item	Related party	Duration	Amount
Rent Expenses of branches and ATMs			
- Al Rashed compound branch – Khobar	Al – Rashed Trade and Contracting Co. Ltd. (related party: Salah Al-Rashed – Chairman of the Board)	Annual	725
- Spaces for (5) ATMs		Annual	306
- Al Rashed compound sales center – Khobar		Annual – cancelled on 26/11/2017	562
-Al-Mubaraz branch – Al Ahsa	Al-Jabr Investment and Real Estate Co. (related party: Hesham Abdullatif Al-Jabr – Board member)	3 years ends on 31/8/2020	240
-Al Jubail Albalad branch		9 years ends on 31/5/2026	788
-ATM location in Al-Mubaraz		3 years ends on 30/6/2020	48
-ATM location in Dammam		Rent agreement was cancelled on 30/5/2017	15
ATM location: Takhassusi – Aroba streett	Rashed Abdrahman Al-Rashed and Sons' Company (related party: Salah Al-Rashed – Chairman of the Board)	5 years ends on 30/4/2018	45
Total rent expenses of branches and ATMs			2,729
Expenses of maintenance and purchases of money counting machines	Abana Projects Company (related party: Salah Al-Rashed – Chairman of the Board)	Purchase as needed	2,080
Expenses of stationary and binding machines	Al Hilal Company owned by Al Touq Holding Company (related party: Abdul Mohsen Ibrahim Al Touq – Board member)	Purchase as needed	1,870
Expenses of cards issuance and printing	Golden Chip Company (related party: Hesham Abdullatif Al-Jabr – Board member)	Purchase as needed – the contract agreement was cancelled on 13/4/2017	1,825
Total			8,504

Director's Report

C) The total amount of compensation paid to key management personnel during the year ended December 31, 2017 is as follows:

	SAR '000
Short-term employee benefits (Salaries and allowances)	53,666
Post-employment benefits (End of service indemnity and social security)	6,408

Key management personnel are those persons, including the 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.

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), except what was stated in note 2(a) to the consolidated financial statements for the year ended December 31, 2017.

External Auditors

In its meeting held on March 23, 2017, the Extraordinary General Assembly appointed Ernst & Young and KPMG Al Fozan & Partners as external auditors of the Bank for the year 2017.

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. (38) of the Consolidated Financial Statements disclosing related parties transactions.

Board of Directors

February 20, 2018

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

Despite challenging market conditions, there were bright spots in the economy that helped underpin economic activity. Improved budget deficits, improved liquidity and reduced backlog of payments to contractors are just a few examples. In parallel, the initial steps in the implementation of Vision 2030 provided a further impetus for a potential turnaround in market sentiment. This helped the Bank to achieve a relatively good performance during 2017 with net income reaching SR 3,027 million. Compared to last year, this represents an increase of 6.1%. Total balance sheet footings stood at SR 171 billion by end of 2017, marginally up from the previous year.

Consumer Bank

The Consumer Bank maintained its focus on upper mass and affluent customers with the introduction of competitive product offerings helping underpin customer acquisition. The strategic tie-up and system integration with the Real Estate Development Fund/Ministry of Housing has paved the way for faster and straight-through housing loan processing resulting in robust growth of the mortgage portfolio. Retail deposits remained stable, against the backdrop of steady liquidity in the market, despite continued government debt issuance.

At year-end, there was a total of 293 outlets: 141 male branches, 44 female branches, 14 Sales Centers and 94 TeleMoney centers. Additionally, the Bank has 12 SME centers and 4 Corporate branches.

Both the mobile and internet platforms have undergone significant improvements during the year. Mobile banking is personalized and is now available across all devices and platforms. The internet platform has been revamped and additional features were added resulting in a 20% increase in transactions. A digital road map has been prepared with the objective of making the internet and mobile banking channels the preferred choice for customers.

Phone banking services have also been revamped to improve customer experience, optimize cost and increase the ability to sell products. Self-service usage has increased from 77% to 85%.

The number of ATMs exceeds 1,260, and the focus has been on cost optimization and improvement in operational efficiency. ATMs continued to be the most utilized channel and additional multi-function ATMs were added to enhance customer experience and improve service delivery.

The digital transformation project is progressing to plan, which should result in improvements in customer experience, a reduction in costs and enhanced service standards.

Aligning with MADA strategy to move more customers away from cash to using their debit cards on POS machines, the Bank has expanded the number of merchants to 3,500 with a total of 15,500 terminals.

Credit cards issued by the Bank witnessed a healthy growth in both international and domestic spend. The total number of customers grew by 14%, online purchase transactions grew by 23%, and payments increased by 16%. The Bank continues to enhance the product offering and the fulfillment and customer lifecycle management.

Overall customer experience remains a key focus. The Customer Experience department plays a major role in enhancing the service culture, systems and processes with a resulting improvement in turnaround time efficiency and after sales service quality. Service monitoring tools are used to measure various metrics across a number of customer touch points. The Bank continues utilizing structured research and surveys, as an essential component of making customer-centric business decisions to guide action planning and meeting customers' expectations.

The Consumer Credit Advisory Unit fulfills an effective role in providing customers with comprehensive details and advice related to Consumer Credit Products, thereby enabling them to make informed decisions in view of their financial circumstances and obligations.

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 2017 the branch continued the growth seen in recent years with product offerings focused on the UK residential and commercial real estate being a key attraction to Saudi investors.

The Branch's strategy is for conservative and selective growth as well as providing diversification by focusing on supporting the Bank's Saudi-centric businesses in Private Banking, Trade Finance, Corporate Banking and Treasury. During the year, a debit card was also introduced for clients.

Corporate Bank

The Corporate Bank provides comprehensive relationship coverage, to ensure quality services and responsiveness to its corporate customer base. It offers a wide range of conventional and Shari'ah compliant banking products and solutions to its customers. The Working Capital, Term Loans, Project Financing, Trade & Cash Management products and services are supported by excellence in service and client relationship management through dedicated Relationship teams and Product specialists.

The Corporate Bank operates within the boundaries laid down in the Bank-wide conservative risk appetite. This ensures that lending guidelines match enhanced risk assessment standards and that the portfolio is managed prudently, ensuring strength and diversity across a broad spectrum of industries and groups. The resultant prudent portfolio quality is robust with low level of non-performing loans, reflecting the Bank's strong credit discipline and a proactive risk management approach.

The Bank 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, within the Kingdom's Vision 2030, by pro-actively tracking the progress of various related initiatives and exploring business opportunities, to support such initiatives.

The Corporate Bank continues to innovate and provide tailored solutions in order to meet evolving customer needs, particularly in the areas of Transaction Banking, Trade Finance, Project Finance, Treasury and Islamic Banking.

Business Review

Commercial Bank

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

Small and Medium Enterprises (SME)

The Bank continues to build a meaningful presence in the SME segment, closely aligning with the Government's stated priority to grow the sector. The Bank has one of the largest network of SME centers covering 10 cities in the Kingdom and there are plans to continue to expand this presence. Specific products have been developed covering the borrowing, deposit and transactional banking requirements of the SME segment, including a tailored insurance offering.

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 Division 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.

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

Shariah affairs: It reviews the activities of business units and affiliates to ensure compliance with Shariah Board guidelines. During 2017, 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: One Ladies section was opened, and 3 conventional branches were converted to dedicated Islamic branches/sections. In total, 174 branches, including 42 ladies sections, representing 95% of the Bank's retail branch network, are now dedicated to providing Shariah-compliant products and services.

Treasury

Treasury's strong performance in 2017 was the result of balance sheet optimization, prudent interest rate management and active cross selling. Despite the challenges that face the banking industry, Treasury continues to pursue a conservative strategy of asset building within the low risk-weighted space. This coupled with pro-active funding management and diversification of asset allocation will continue to contribute to the Bank's overall performance.

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 posted a solid performance in 2017, amid a challenging market environment. The Company continues to be a leader in developing home finance. By end 2017, its loan book was in excess of SR 4 billion, financing a total of around 6,300 units.

ANB/AIG/MetLife Alico Insurance joint venture

During 2017, the Bank's joint venture with AIG and MetLife-Alico, which offers general and personal lines of insurance products, continued to develop, in a difficult market environment. ANB Insurance Agency, the 100% owned insurance agency, focuses on expanding its distribution coverage reaching out to the Bank's customers, across its retail branch footprint and its corporate, commercial, and SME client base.

Al Arabi Heavy Equipment Leasing (AHEL)

AHEL, the crane and heavy equipment leasing subsidiary, continued to focus on optimizing operational performance during 2017 against a backdrop of a very challenging and highly competitive construction and contracting market.

It is expected that 2018 will be another 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.

Asset management, a key business of the Company, generated the highest revenue during 2017. Revenues from asset management were up compared to 2016, helped by one time acquisition fees received from a Real Estate Private Fund and fees from DPMs. Assets Under Management decreased by SR 1.3billion (16%), from SR 8.2 billion in 2016 to SR 6.9 billion by end of 2017.

Brokerage business is the other significant contributor to the total revenue of the Company. Brokerage revenue is mainly generated from commissions earned on shares traded on the Saudi Stock Exchange (Tadawul & NOMU), in addition to income generated from margin trading activities. During 2017, oil prices have remained depressed which had a negative impact on TASI and market turnover, thus affecting the brokerage revenues significantly. 2017 brought many significant changes to the market and to the Company's Order Management System in preparation for the inclusion in MSCI Emerging Markets Index.

Other activities include corporate advisory services, special commission income, custody of securities and margin lending. Revenues from these increased marginally compared to 2016.

Risk Management

The 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, risk management policy, 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

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 for the Bank in line with industry standards.
- Formulates business continuity plans to enable the Bank to continue its critical services 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 & 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 banking industry must operate within a robust operation framework of laws, regulation, policies and rules. The Compliance and AML Group contains four departments; Compliance, SAMA Relationship Department, Anti-Money Laundering and Information Security, focused on ensuring regulatory 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.

The Bank operates 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, also they must report any suspicious money laundering transactions. The Bank has adopted a Compliance Policy, AML & CTF 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

In this digital era where technology is transforming banking, the Bank has continued to invest in upgrading its infrastructure for delivering services through digital channels. Advances in technology have also created new customer expectations and the initial Digital Branch will be launched in early 2018.

The technology team is committed to provide innovative IT services that meet business needs and enhance the end-user experience, to a secure and resilient enterprise infrastructure that enables the trusted delivery of programs and services, to smart investments across the board that ensure high-value and cost-effectiveness.

As the technology landscape is disrupted with the introduction of Fintechs, Artificial Intelligence, Cloud Computing and Blockchain, the Bank continues to evaluate the potential of these technologies.

Human Resources

During 2017 there was a major focus on employee development, including the transformation of the ANB Training Center to the ANB Academy with improved facilities and curriculum, and the graduation of more than 150 participants in the High Potential Program. The Saudization drive continued with the hiring and training of young Saudi graduates as well as increasing the number of Saudi women employees in different functions and at different organizational levels.

The Human Resources Group continues to improve HR processes via automation and streamlining. As with previous years, there is a high level of priority to ensuring that the Bank remains compliant in all HR matters.

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 2017, 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.

These activities included support for the government effort in protecting Saudi youth from drug abuse, support for a number of health initiatives covering diabetes, Alzheimers, Down Syndrome and Parkinsons Disease and also support for social initiatives such as the Women's Committee for Social Development.

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