

Arab National Bank
Annual Report 2018



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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THE CUSTODIAN OF THE TWO HOLY MOSQUES
KING SALMAN BIN ABDULAZIZ AL SAUD



**HRH CROWN PRINCE, DEPUTY PRIME MINISTER,
MINISTER OF DEFENSE**
PRINCE MOHAMMAD BIN SALMAN BIN ABDULAZIZ AL SAUD

Chairman's Message



Salah R. Al-Rashed
Chairman

On behalf of the Board of Directors, I am pleased to present the annual report and closing accounts of Arab National Bank for the year ended December 31, 2018.

The Bank continued to perform well in 2018, achieving very satisfactory results despite the challenging operating environment. Net income rose to SR 3.31 billion, a growth of 9.35% compared to 2017, while the balance sheet grew modestly to SR 178 billion by year end.

Fundamental to the consistent growth achieved over the last number of years is the underlying conservative approach to managing credit risk and to actively controlling costs. Achieving the correct balance between Retail and Wholesale banking also provides a counter-cyclical buffer to both local and global negative economic trends. These mitigants will become all the more important going forward as challenges such as the growing global trade tensions, the exit of Britain from the EU and the slowdown of the Chinese economy are all likely to have significant impact on the global economy.

Locally, the ambitious goals of Vision 2030 are providing a positive stimulus to the financial services sector, with the drive to make home ownership more accessible for all citizens having particular impact. The Bank is proud to support this government initiative through investment in technological and process infrastructure to best support customers in achieving home ownership. The Bank also continues to invest in the Corporate and SME areas to proactively assist customers achieve the stated goals of the government vision.

2018 saw the Bank become the first in the country to provide remote account opening via a video session. This is one of the many services being provided at the flagship digital branch located in Riyadh and further digital-only branches are to be opened at other locations during 2019. Digital channels now provide 94% of customer banking transactions and further initiatives such as online customer onboarding will be implemented in the coming year. The goal is to provide customers with the widest possible number of choices in how they interact with the Bank in a way most convenient to them. Branches continue to remain a key part of service delivery and the growth in digital channels no way detracts from this.

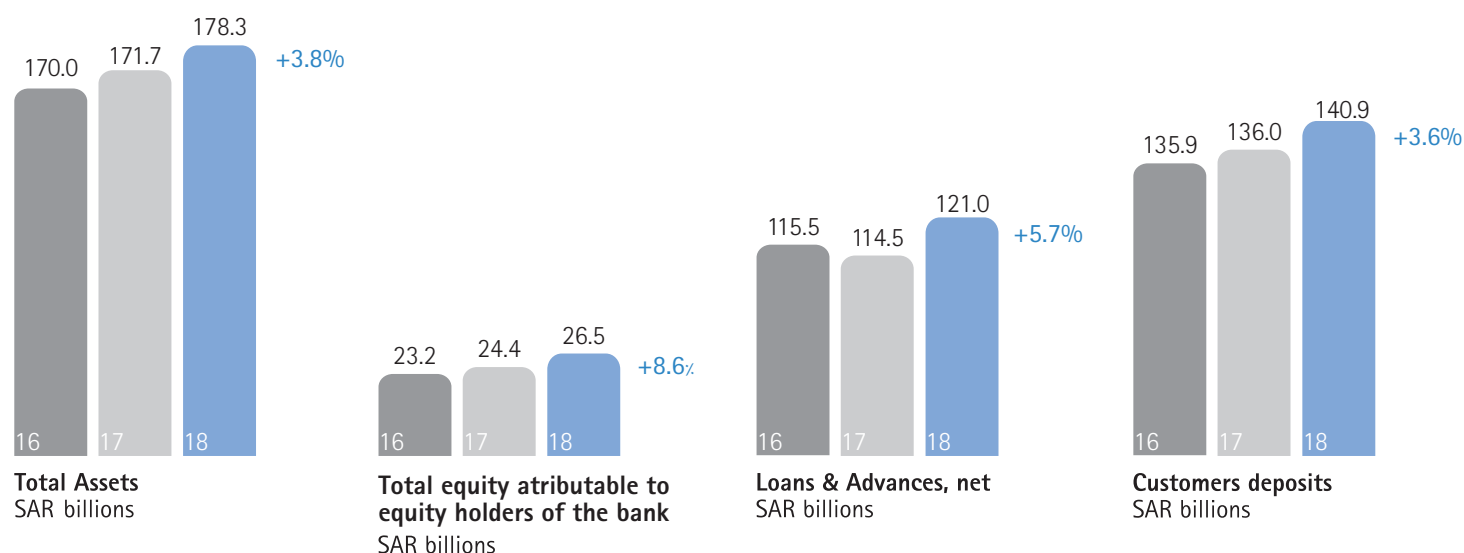
Risk management, compliance and information security continue to grow in importance for banking and the Board places great emphasis on ensuring that governance is in place and that a zero tolerance environment exists for non-conformance. Globally, there has been an increasing trend of cyber-crime and financial fraud and all efforts are being made to ensure that the best preventative and technical controls are in place for the Bank and its customers.

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.

Employees are the cornerstone to the ongoing success of the Bank and it was most pleasing to see their efforts publicly recognized by receipt of the 'Best Retail Bank in Saudi Arabia' award, received from the reputed World Finance magazine. Given their continued commitment and efforts, we can look forward to the future with great optimism.

Salah R. Al-Rashed
Chairman

Financial Highlights



SAR Millions	2018	2017	2016	2015	2014
Net Commission income	5,151	4,665	4,145	3,845	2,623
Net Income Before Provisions for credit losses	4,308	4,176	3,580	3,540	3,359
Net Income attributed to equity holders of the Bank	3,310	3,027	2,854	2,964	2,875
Expense to Revenue Ratio	34.47%	35.7%	38.9%	39.0%	38.3%
Return on Assets (ROA)	1.90%	1.80%	1.7%	1.8%	1.9%
Return on Equity (ROE)	13.0%	12.7%	12.6%	14.0%	14.5%
Investments	27,857	32,321	25,548	33,294	33,941
Loans and Advances, net	121,038	114,543	115,512	115,656	104,180
Total Assets	178,291	171,702	170,009	170,421	164,668
Customers Deposits	140,909	136,048	135,907	135,761	129,740
Total Equity attributed to equity holders of the Bank	26,456	24,370	23,235	21,894	20,601

BBB+

Standard & Poor's

A²

Moody's

BBB+

Fitch Ratings



Best Retail Bank
Saudi Arabia 2018

Disclosures under Basel III framework

Certain qualitative and quantitative disclosures are required under the Basel III framework on quarterly, semi-annual or annual basis. These disclosures are made available on the Bank's website www.anb.com.sa. Such disclosures are not subject to audit by the external auditors of the Group.

Directors' Report

Directors' Report for the financial year ended December 31, 2018

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, 2018.

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 140 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 2018 financial year amounted to SAR 3,310 million compared to SAR 3,027 million in 2017, an increase of 9.3%. Net special commission income increased by 10.4% to reach SAR 5,151 million compared to SAR 4,665 million in the previous year, while fees and commission income decreased by 22.5% to reach SAR 651 million from SAR 840 million in 2017. This resulted in total operating income increasing by 2.5% from SAR 6,378 million in 2017 to SAR 6,535 million in the current financial year.

Operating expenses before provisions totalled SAR 2,241 million compared to SAR 2,220 million in 2017, an increase of 0.9%. The Bank continued to adopt conservative risk management policies to ensure it has sufficient provision coverage. Provision charge for credit losses amounted to SAR 998 million compared to SAR 1,149 million in 2017 resulting in a non-performing loans coverage ratio of 179% as at December 31, 2018.

The Bank's loan portfolio amounted at year-end to SAR 121,038 million compared to SAR 114,543 million in 2017, an increase of 5.7%; while its investment portfolio decreased to SAR 27,857 million from SAR 32,321 million in 2017, a decrease of 13.8%.

Total assets and customer deposits as at December 31, 2018 amounted to SAR 178,291 million and SAR 140,909 million, respectively.

Equity attributable to equity holders of the Bank was SAR 26,456 million compared to SAR 24,370 million in 2017, an increase of 8.6%.

Financial Highlights

SAR millions					
	2018	2017	2016	2015	2014
Loans and advances, net	121,038	114,543	115,512	115,656	104,180
Investments, net	27,857	32,321	25,548	33,294	33,941
Customers' deposits	140,909	136,048	135,907	135,761	129,740
Shareholders' Equity	26,456	24,370	23,235	21,894	20,601
Total assets	178,291	171,702	170,009	170,421	164,668
Total liabilities	151,798	146,636	146,084	147,789	144,029
Total operating income	6,535	6,378	5,854	5,781	5,441
Total operating expenses	3,236	3,375	3,025	2,862	2,591
Net Income	3,310	3,027	2,854	2,964	2,875

Geographical Analysis of Revenues

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

	SAR '000
Central Region*	4,307,586
Western Region	1,337,662
Eastern Region	889,575
Total	6,534,823

* Includes London branch revenues (not disclosed separately due to it being immaterial to the Bank as a whole).

Directors' Report



Back Row (Starting from the right): Hesham Abdulatif Al-Jabr – Dr. Bassem Ibrahim Awadallah – Dr. Robert Eid (Managing Director), Ahmed A. Al-Akeil (Deputy Chairman of the Board) – Ahmad Wazie Al Qahtani

Front Row (Starting from the right): Ziad Anwar Akrouk – Abdulmohsin Ibrahim Al-Touq – Salah R. Al-Rashed (Chairman of Board of Directors) Khaled M. Albawardi – Mohammed A. Alghanamah

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

Ziad Anwar Akrouk – Chairman
Ahmed A. Al-Akeil
Dr. Robert Eid
Ahmad Wazie AL Qahtani
Hesham Abdulatif Al-Jabr

Directors' Report

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 amended and approved by CMA Board on Muharram 28, 1437H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity. 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.

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. During 2017, SHL increased the paid-up capital by issuing 20 million shares for SAR 10 each, by transfer from its retained earnings to its existing shareholders in proportion to the existing number of shares (by capitalizing profit). This increase in share capital was approved in the Extraordinary General Assembly (EGM) held on May 24, 2017. Later, SHL's EGM took the decision to cancel the unpaid shares of the authorized share capital of 100 million shares for SAR 10 each with a total value of SAR 1 billion, which was effected in April 2018. Accordingly, SHL's authorized and fully paid share capital amounts to SAR 1,000 million representing 100 million shares for SAR 10 each as of December 31, 2018. The Bank's share is equity accounted and started operations during the fourth quarter of 2017, with all its real estate products being fully Shari'ah compliant.

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 Companies' 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, health, accident 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 Authority (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 owned 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2017.

MetLife in its extraordinary general meeting held on April 18, 2018 approved the reduction of the share capital from SAR 350 million to SAR 180 million by reducing the number of shares from 35 million to 18 million shares of SAR 10 each to restructure its capital to offset SAR 170 million against the accumulated losses in line with the new Companies' Law. The Bank owns 5.4 million shares (30%) at a nominal value of SAR 10 per share at December 31, 2018.

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 the 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 (Corresponding to 28/5/2015)

Directors' Report

Change in status of a subsidiary

The Bank owns indirectly 25.47% of ANBI Business Gate Fund (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 Fund was consolidated as a subsidiary in 2017. During the year, the Group has reassessed its control over the Fund and after considering the Fund Board composition and other factors concluded that the Group does not control the relevant activities of the Fund, effective October 2018, though, significant influence over the Fund is still retained by the Group. Accordingly, the Group has discontinued consolidation of the Fund in its consolidated financial statements and has accounted for the Fund as an associate and the Bank's share is equity accounted.

It is worth mentioning that the above mentioned subsidiaries 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.

The Board proposed a dividend distribution as follows:

	SAR '000
2018 net income	3,310,164
Retained earnings from previous years (restated)	3,161,167
Total	6,471,331
Distributed as follows:	
Transferred to statutory reserve	-
Net loss on derecognition of FVOCI equity	(16,977)
Zakat - prior years (resulting from settlement of previous years' Zakat up to 2017)	1,113,261
Zakat and income tax - current year	(454,419)
Total dividend distribution -Interim and proposed (45.3% of 2018 net income)	(1,500,000)
Retained earnings for 2018	5,613,196

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 Kingdom'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 the Kingdom of Saudi Arabia with such a young population means that the provision of affordable housing is a key focus area for Government. The Bank has completed gearing itself to provide the new services and products to support such ambitious plans. The housing portfolio is currently undergoing rapid growth.

Directors' Report

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 purposes the Group is organized into the following major operating segments:

Retail banking	: Deposit, credit and investment products for individuals.
Corporate banking	: Loans and advances, 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; and
Other	: Includes income on capital and unallocated costs and assets and liabilities of 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, 2017. Segment assets and liabilities mainly comprise operating assets and liabilities.

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

The Group's total assets and liabilities as at December 31, 2018 and its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

SAR '000						
2018	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,204,960	86,119,766	51,467,059	73,226	2,425,495	178,290,506
Investments in associates	-	-	-	-	887,276	887,276
Total liabilities	67,303,484	77,773,557	4,827,343	44,464	1,849,239	151,798,087
Operating income / (loss) from external customers	2,065,930	4,169,340	(39,659)	208,529	130,683	6,534,823
Intersegment operating income / (expense)	390,887	(1,698,513)	1,115,424	(146)	192,348	-
Total operating income	2,456,817	2,470,827	1,075,765	208,383	323,031	6,534,823
Of which:						
Net special commission income	2,216,053	2,044,393	648,621	37,381	204,994	5,151,442
Fees and commission income, net	142,104	427,645	8,352	59,308	13,705	651,114
Impairment charges for credit losses and other provisions, net	127,265	871,058	-	-	-	998,323
Reversal of impairment charges for other financial assets, net	-	-	(3,542)	-	-	(3,542)
Depreciation and amortization	102,645	8,231	1,559	2,119	90,436	204,990
Total operating expenses	1,588,613	1,422,072	86,320	85,907	52,594	3,235,506
Share in earnings of associates, net	-	-	-	-	12,500	12,500
Net income attributable to equity holders of the Bank	868,204	1,048,755	989,445	122,476	281,284	3,310,164
Net income attributable to non-controlling interest	-	-	-	-	1,653	1,653

Directors' Report

Micro, Small & Medium Enterprises

Qualitative Disclosures

Micro, Small & Medium Enterprises (MSME) accounts are marketed and managed at ANB via the following two business units of the Bank.

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 40 million.

In addition, there is a Medium Banking Unit (MBU) within Commercial Banking Division that target business entities with turnover between SAR 40 million to SAR 200 million. These business boundaries are in line with the 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, guarantees, trade finance, 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 three 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 strength of 66 employees and we plan to add staff in 2019.

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 174 man days of training was imparted to our MSME staff in 2018 compared to 81 in 2017. In addition, we have plans to upskill our MSME customers by conducting and/or sponsor training courses in the area of financial and business management in partnership with the SME Authority.

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 an opportunity in the underserved MSME segment and also 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.

Quantitative Disclosures

	As at December 31, 2018				As at December 31, 2017		
Details	Micro	Small	Medium	Total	Small	Medium	Total
Loans to MSMEs – on balance sheet (SAR millions)	96	1,082	4,473	5,651	881.9	1,743.9	2,625.8
Loans to MSMEs – off balance sheet (SAR millions)	64	760	2,455	3,279	758.7	1,220.5	1,979.2
On balance sheet loans to MSMEs as a percentage of total on balance sheet loans	0.08%	0.87%	3.62%	4.57%	0.76%	1.49%	2.25%
Off balance sheet loans to MSMEs as a percentage of total off balance sheet loans	0.20%	2.39%	7.73%	10.32%	2.38%	3.83%	6.21%
Number of loans (on and off balance sheet)	219	2,067	3,520	5,806	1,753	1,858	3,611
Number of customers (on and off balance sheet)	135	1,128	847	2,110	935	317	1,252
Number of loans guaranteed by Kafalah program (on and off balance sheet)	62	507	29	598	411	23	434
Amount of loans guaranteed by Kafalah program (on and off balance sheet) – (SAR millions)	21	354	121	496	229	96	325

Directors' Report

Risks encountered or that could potentially be encountered by the Bank

Risk Management

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

a – Credit risk

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

b – Market risk

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

c – Operational Risk

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

d – Regulatory and Reputation Risk

These are risks related to imposing penalties by regulatory and supervisory authorities resulting from non-compliance to related regulations and instructions including penalties and violations. Risks are managed mainly by the Bank's Compliance and Anti-Money Laundering Group as an independent body which is assigned to evaluate such risks and formulate the controls' framework to mitigate such risks.

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 specify 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.

Share Capital

As at December 31, 2018, the authorized and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each.

On December 24, 2018, the board of directors recommended to increase the Bank's capital from SAR 10 billion to SAR 15 billion through the issuance of 500 million bonus shares of SAR 10 each, subject to the final approval by the extraordinary general assembly. The capital increase will be paid through capitalizing 60% from statutory reserves and 40% from retained earnings.

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

Directors' Report

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, 2018 that were appointed by Arab Bank PLC were Dr. Bassem Ibrahim Awadallah, and Messrs. Mohammed A. Alghanamah, Ziad Anwar Akrouk and Dr. Robert Eid (Managing Director).

As at December 31, 2018, the Board consisted of the following members:

	Name	Position
1	Salah Rashed Al-Rashed	Chairman of the Board (non-independent)*
2	Dr. Robert Eid	Board member (executive)
3	Ahmed Abdullah Al-Akeil	Deputy Chairman of the Board (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	Dr.Bassem Ibrahim Awadallah	Board member (non-executive)
9	Mohammed A. Alghanamah	Board member (non-executive)
10	Ziyad Anwar Akrouk	Board member (non-executive)

* According to the Capital Market Authority definition of independency.

▲ According to the Saudi Arabian Monetary Authority definition of independency.

Note: Effective 19/9/2018, Ziyad Anwar Akrouk was appointed a member of the Board to replace Nemeh Sabbagh.

Directors' Report

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>
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	<p>Has a long experience in management and banking, and attended many courses in finance, investment and projects assessment held by International Development Bank Institute, 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 Saudi Syrian Co., Real Estate Co., and Arab Bank for Economic Development in Africa, and a Board member in a number of joint stock companies.</p>
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 Consultaion 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)	<p>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.</p>
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	<p>Member of Hassanah Investment Company owned by the General Organizaion for Social Insurance, and has a wide experience in investments.</p>

Directors' Report

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

Board Member	Position	Academic Qualifications	Practical Experience
Abdul Mohsen Ibrahim Al Touq	- 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.
Dr. Bassem Ibrahim Awadallah	- 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 Ministry of Planning and International Cooperation.
Mohammed A. Alghanamah	- 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.
Ziyad Anwar Akrouk	- Board member	Master of Business Administration: Finance from Syracuse University in New York, USA. Bachelor of Science Degree with Honors, in Civil Engineering from University of Leeds in England.	Currently he is Head of Group Risk, Arab Bank plc – Jordan. Also, he was Chief Executive Officer for each of Arab Bank Plc, UK, Citibank – Kuwait, Citibank – Jordan and other leadership positions in addition to being Board member for Arab Bank Plc – UK, Member of the Arab Bankers Association, London, British Bankers Association, London, Association of Foreign Banks, London, and Association of Banks in Jordan.
Dr. Robert M. Eid	- Managing Director - Chief Executive Officer - Chairman of the Executive Committee - Member of the Strategy Committee	PHD degree in Finance and Banking Sciences from Sorbon 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.
Saleh 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, administrative consultant and a member in 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.

Directors' Report

Four regular Board meetings were held during 2018 and were attended as follows:

Date	Attendance record	No. of Attendees
March 20, 2018	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani, Bassem Ibrahim Awadallah and Mohammed A. Alghanamah.	8
May 29, 2018	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 and Mohammed A. Alghanamah.	9
September 25, 2018	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, Mohammed A. Alghanamah and Ziyad Anwar Akrouk.	9
December 17, 2018	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, Mohammed A. Alghanamah and Ziyad Anwar Akrouk.	10

An Ordinary General Assembly meeting was held on April 2, 2018, and following are the names of Board members who attended this meeting:

No.	Name	Position
1.	Salah Rashed Al-Rashed	Chairman of the Board
2.	Robert Eid	Managing Director (executive)
3.	Ahmed Abdullah Al-Akeil	Deputy Chairman of the Board
4.	Khaled M. Saad Albawardi	Board Member
5.	Hesham Abdullatif Al-Jabr	Board Member
6.	Ahmed Wazie Alqahtani	Board Member

Directors who were board members or managers in other companies inside or outside the Kingdom as at December 31, 2018 were as follows:

Director	Board membership in companies (inside or outside the kingdom)
Salah Rashed Al-Rashed	1 - Saudi White Cement Company 2 - Tech Investment Company 3 - Saudi Services for Electro Mechanic Works 4 - Golden Chicken 5 - Care & Science Medical Co. 6 - Al-Rashid Trading & Contracting Co. 7 - Al-Rashid Abetong Company Limited 8 - Riyadh Cement Company 9 - Al-Rashed Food Company 10 - Alrashed & Al-Omran Co. 11 - Arabian Industries Company 12 - Rashed Abdulrahman Alrashed & Sons Company 13 - Al Yamama Medical Company 14 - Gulf Applications Company 15 - Supply Solutions for Information Technology
Abdul Mohsen Ibrahim Al Touq	1 - Altouq Company 2 - Dar Altamleek Company 3 - Saudi Company for Hardware 4 - Saudi Metal Coating Company Limited 5 - Saudi Telecommunication Systems Company 6 - Altouq Holding Company 7 - Saudi Networkers Services Company 8 - Arabian Industries Company 9 - Steel Products Company Ltd. 10 - Eathos Ltd.
Ahmed Abdullah Al-Akeil	1 - Aldrees for Petroleum Services and Transportation
Khaled M. Albawardi	1 - M. & A. Albawadi Co. 2 - Attken Steel Engineering Factory 3 - Attken International Co. 4 - Khaled M. Albawardi Holding Co. Ltd. 5 - International Transport & Warehousing Co. Ltd. 6 - Saudi Development & Export Services Co. Ltd. 7 - Eastern Gate Logistics Services Limited
Hesham A. Aljabr	1 - Nattily Company for Furniture and Internal Design 2 - Al Jabr Holding Company 3 - Gulf Carton Factory 4 - Haier Home Appliances Co. 5 - Canned Beverage Factory Co.
Ahmed Wazie Alqahtani	-
Dr. Robert Eid	1 - Saudi Home Loans 2 - MetLife - AIG - ANB Cooperative Insurance Company 3 - ANB Invest

Directors' Report

Director	Board membership in companies (inside or outside the kingdom)
Bassem Ibrahim Awadallah	1 - Arab Bank (PLC) (Jordan) – Deputy chairman of the Board 2 - AL Baraka Banking Group (Kingdom of Bahrain) 3 - Tomoh Advisory (United Arab Emirates) – Chief Executive Officer
Mohammed A. Alghanamah	1 - Deputy Chairman of the Board - Islamic International Arab Bank (Jordan) 2 - Head of the Managers' Board - Arab National Leasing Company (Jordan) 3 - Member of the Managers' Board - Arab Bank Investment Group (Jordan) 4 - Deputy Chairman of the Board - T- Bank (Turkey) 5 - Board Member - Arab Bank (Syria)
Ziyad Anwar Akrouk	1 - Arab Bank PLC (Jordan)

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. 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 2018, the Executive Committee Comprised of Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, and Mohammed A. Alghanamah.

The Executive Committee held (19) meetings during 2018, following is the attendance record for these meetings:

No.	Date	Attendance record	No. of attendees
1.	9/1/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
2.	23/1/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
3.	6/2/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5

No.	Date	Attendance record	No. of attendees
4.	20/2/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Ahmed Abdullah Al-Akiel, Hesham Abdullatif Al-Jabr	5
5.	6/3/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Hesham Abdullatif Al-Jabr, Khaled M. Albawardi, Mohammed A. Alghanamah	5
6.	20/3/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	4
7.	2/4/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
8.	24/4/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
9.	15/5/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
10.	29/5/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
11.	26/6/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Mohammed A. Alghanamah	4
12.	25/7/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
13.	5/9/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
14.	25/9/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
15.	8/10/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
16.	23/10/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
17.	11/11/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5
18.	4/12/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	4
19.	17/12/2018	Dr. Robert Eid, Salah Rashed Al-Rashed, Khaled M. Albawardi, Hesham Abdullatif Al-Jabr, Mohammed A. Alghanamah	5

Directors' Report

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. Further, the committee determines the skills and capabilities required to reinforce the Board's performance, and the Board authorizes the Committee to review the Board's structure and to evaluate its performance whenever is needed. The Committee also ensures availability of adequate time to enable the member to perform his duties and responsibilities in addition to the individual contribution based on an approved mechanism to identify strengths and weaknesses and propose remedial actions and submit the appropriate recommendations to the Board to achieve the Bank's interests. The Committee's functions also include nomination to Board membership and to nominate senior executives through studying their qualifications and submit related recommendations to the Board.

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

The Board approves the level of remuneration paid to the Board chairman and members in accordance with a mechanism that considers SAMA instructions, which set maximum and minimum limits for such remuneration, 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 3,690 thousand, and for executive members SAR 400 thousand. Attendance allowances to the non-executive and independent Board members were SAR 465 thousand, and for executive members SAR 100 thousand. Expense allowances to non-executive and independent Board members including travel and accommodation expenses were SAR 486 thousand. Salaries paid during the year to the six senior executives including CEO and CFO were SAR 16,634 thousand. Their allowances and compensation amounted to SAR 3,605 thousand and their variable compensation were SAR 20,755 thousand while their incentive plans amounted to SAR 2,200 thousand. Remuneration paid to members of the audit committee amounted to SAR 600 thousand and their attendance allowances to SAR 135 thousand.

The Nomination and Remuneration Committee held (6) meetings during 2018, following is the attendance record for these meetings:

No.	Date	Attendance record	No. of attendees
1.	9/1/2018	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
2.	23/1/2018	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
3.	24/4/2018	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
4.	15/5/2018	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
5.	25/9/2018	Khaled M. Albawardi, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil	3
6.	17/12/2018	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 and Anti-Money Laundering Group, 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 meets regularly with the Managing Director, Chief Financial Officer, Head of Internal Audit, Head of Compliance and Anti-Money Laundering Group, 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 2018, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman / Deputy Chairman of the Board - independent Board member), Mr. Saleh A. Al- Ismail and Mr. Mohammed A. Alomran (members from outside the Board).

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The Audit Committee held (9) meetings during 2018, following is the attendance record for these meetings:

No.	Date	Attendance record	No. of attendees
1.	22/1/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
2.	19/2/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
3.	23/4/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
4.	3/6/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
5.	22/7/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
6.	17/9/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
7.	22/10/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
8.	19/11/2018	Ahmed Abdullah Al-Akiel, Saleh A. Al- Ismail, Mohammed A. Alomran	3
9.	3/12/2018	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. Ziyad Anwar Akrouk (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 2018, dated March 20, 2018; and following is the attendance record for this meeting:

Date	Attendance record	No. of attendees
20/3/2018	Ahmed Abdullah Al-Akiel, Dr. Robert Eid, Hesham Abdullatif Al-Jabr, Ahmed Wazie Alqahtani	4

Note: Effective 20/12/2018, Ziyad Anwar Akrouk (Board member) was appointed Chairman of the Strategy Committee to replace Nemeh Sabbagh.

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 2018, following is the attendance record for these meetings:

No.	Date	Attendance record	No. of attendees
1.	29/5/2018	Mohammed A. Alghanamah, Salah Rashed Al-Rashed, Khaled M. Saad Albawardi, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq	5
2.	17/12/2018	Mohammed A. Alghanamah, Salah Rashed Al-Rashed, Khaled M. Saad Albawardi, Ahmed Wazie Alqahtani, Abdul Mohsen Ibrahim Al Touq	5

Directors' Report

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

1- Major Shareholders

	At beginning of year January 1, 2018		change during the year		At end of year December 31, 2018	
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) (*)	121,648,347	12.16	-	-	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	5.66	-	-	56,542,095	5.66

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

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

	At beginning of year January 1, 2018		change during the year		At end of year December 31, 2018	
Name	Number of shares	Ownership %	Number of shares	Change %	Number of shares	Ownership %
Salah Rashed Al-Rashed	9,882	0.00	-	-	9,882	0.00
Ahmed Abdullah Al-Akeil	135,465	0.01	12,517	9.2	147,982	0.01
Khaled M. Saad Albawardi	33,307	0.00	-	-	33,307	0.00
Hesham Abdullatif Al-Jabr	12,014	0.00	-	-	12,014	0.00
Abdul Mohsen Ibrahim Al Touq	200	0.00	-	-	200	0.00
Ahmed Wazie Alqahtani*	-	-	-	-	-	-
Ziyad Anwar Akrouk**	-	-	-	-	-	-
Mohammed A. Alghanamah**	-	-	-	-	-	-
Robert Eid**	-	-	-	-	-	-
Bassem Ibrahim Awadallah**	-	-	-	-	-	-
Obaid A. Al Rasheed	28,500	0.00	-	-	28,500	0.00
Relatives of Zuhair S. Al Herbish	70,200	0.00	-	-	70,200	0.00

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

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

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

Directors' Report

Internal Control Framework

Senior Management is responsible for establishing and maintaining an adequate and effective internal control system for risk management within the bank's approved risk acceptance framework. 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 and safeguard its assets.

Internal Audit functions as the third line of defense in providing an independent appraisal to the Board's Audit Committee and the management as to the effectiveness of internal controls, including conducting independent periodical reviews for the activities of the Compliance and Anti-Money Laundering Group, to ensure 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 and Anti-Money Laundering Group, 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, , and establishing a strong compliance culture among employees in relation to 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 effective its designed, it has 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 internal 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 Management's evaluation of the internal control system, as prescribed by SAMA.

Results of the Review of Internal Control Procedures' Effectiveness

Minutes of the Audit Committee meetings and results of its works in 2018 submitted to the Chairman of the Board included the main observations and recommendations to rectify them. The Committee, through its follow up of the performance of the internal audit division and other related departments and being informed of the different internal controls procedures' reports in the Bank; mainly the reports of Internal Audit, Risk Management Group, Compliance and Anti-Money Laundering Group and external audit reports during 2018 as well as other reports required by the Committee from time to time in relation to the activity of some departments to look into some of the work's aspects and related results, and in light of the meetings with the Bank's Chief Executive Officer and other concerned departments' officials and discussion with them on the contents of such reports and performance of their sectors; as well as its meetings with the Head of Information Technology Group, Head of Information Security, and representatives of the external auditors during this year, whereby the meetings held totaled (6) in 2018; thus, the Committee concluded that the Bank's internal control environment reflects the effectiveness of its internal control procedures and that it is in continued improvements to meet changes in business needs and responding to future developments. Further, the Committee concluded that other than what was indicated in the Committee's minutes and reports, the Committee is not aware of any significant comments that require disclosure. The corrective procedures for violations (if any) are being resolved on the spot under follow up and close supervision by internal audit division.

Regarding the accounting policies applied in the Bank as well as implementation of all requirements and instructions of SAMA and other regulatory bodies, the Committee continually discusses such policies with the heads of the concerned departments in the Bank and the external auditors, on periodical basis, as well as discussing any changes in the policies and International Financial Reporting Standards (IFRS) to ensure proper implementation and their impact on the Bank's current and future performance results and take precautionary measures through appropriate procedures.

Directors' Report

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
2/4/2018	File for the General Assembly	2
4/4/2018	File for annual dividend distribution	
9/7/2018	File for interim dividend distribution	1
30/8/2018	A file for control and to be informed of any change	1
1/10/2018	Quarterly report file	1
1/11/2018	File for reports and control	2
1/12/2018	File for reports and control	
31/12/2018	Year-end and annual report	1
Total		8

Credit Ratings

During 2018, the Bank's credit ratings granted by prominent international credit rating agencies were as follows:

Standard & 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 2018 was 4,132 compared to 4,170 at the end of 2017. The Saudization ratio at the end of 2018 was 89%.

Donations and Social Responsibilities

The Bank recognizes its role in society, and in order to achieve a positive contribution outside its principal business, the Bank, in 2018, has executed a number of different activities in the main areas of social responsibilities in support of health initiatives that included the Charitable Health Society for Patients Care (EYLAGY), Cancer Fighting Society in Alahsa, Saudi Parkinson's Patients Society, Down Syndrome Charitable Association, in addition to sponsoring the Breast Cancer Early Detection symposium at the Bank's Sharaia' branch in Makkah.

Further, the Bank has participated in different charitable initiatives including support of the construction of the Disabled Children Association Center in Makkah, in addition to donation to the General Directorate of Prisons, Alahsa Disabled Association and the Insolvents' Committee in the Eastern Region.

In the field of culture, the Bank has sponsored the Saudi Awards Program in its second season and provided awards to the contestants, in addition to sponsoring the Sixth Eastern Coast Festival for Sea Heritage and Eid Al - Fitr festivals in Riyadh.

In relation to economic field, the Bank supported the International Day of Financial Inclusivity, the International Day of Savings and the International Day of Chartered Accountants.

In the field of supporting the national cadre, the Bank sponsored the Graduate and Employment Day that took place in the Institute of Public Administration in each of Riyadh, Jeddah and Dammam, and honoring Samahir Alhazli for ranking the first position in the Haj Haction Contest.

Statutory Payments

Statutory payments during the year 2018 were as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders	182
Income tax payable by the non-Saudi shareholders	272
Withholding tax	7
GOSI	56

Directors' Report

Penalties and Regulatory Restrictions

Some immaterial penalties were charged during 2018 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	Prior Year 2017		Current Year 2018	
	Number of Penalties	Total Amount of Penalties	Number of Penalties	Total Amount of Penalties
Violation to SAMA instructions	9	973	13	1,315
Violation to SAMA instructions related to customer protection	-	-	-	-
Violation to SAMA instructions related to exerting due diligence	-	-	-	-
Violation to SAMA instructions related to level of ATM / POS performance	2	1,035	2	910
Violation to SAMA instructions related to exerting due diligence on Anti-Money Laundering (AML) and CTF	1	25	1	151
Total	12	2,033	16	2,376

Other Penalties

SAR '000					
Name	Prior Year 2017		Current Year 2018		
	Number of Penalties	Total Amount of Penalties	Number of Penalties	Total Amount of Penalties	Subject of Violation
Penalties by CMA	1	100	-	-	-
Penalties by Municipalities and Regions Amanat	8	876	21	801	Violation to license requirements
Penalties by the Ministry of Interior	-	-	2	40	Violation to security guards requirements
Penalties by SADAD Company	-	-	3	24	Violation to SADAD requirements
Total	9	976	26	865	

Protective Actions to Remedy Violations:

The Bank is keen to adhere to Regulatory and Supervisory Authorities' instructions and regulations, and the Bank has control bodies assigned to set forth the protective measures to mitigate violations and avoid its repetition in coordination with the concerned bodies. The Bank, promptly evaluates the violations and study the reasons thereof and set up the necessary corrective plans and follow them up with the concerned departments. The main methods to remedy violations and avoid repetition in the future include the following:

1. Upgrade the existing systems to introduce new technological tools.
2. Amend the related policies and procedures.
3. Introduce new controls to follow up the Bank's related businesses.
4. Awareness of employees on the related regulatory requirements.
5. Include the violations within control programs of the control departments in the Bank for follow up and to ensure implementation of the protective measures.

Directors' Report

Conflicts of Interests

Following is a statement of the related parties' transactions as shown in the 2018 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, 2018 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	22,574
Due to banks and other financial institutions	444,635
Commitments and contingencies	2,125,839
Directors, key management personnel, other major shareholders and their Affiliates:	
Loans and advances	6,082,248
Customers' deposits	10,722,855
Commitments and contingencies	1,653,684
Bank's mutual funds:	
Investments	40,480
Loans and advances	164,242
Customers' deposits	6,729
Associates:	
Investments in associates	887,276
Loans and advances	2,952,273
Customers' deposits	81,269
Commitments and contingencies	47,346
Local sukuk	10,000

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

b) Income and expenses transactions with related parties included in the consolidated financial statements for the year ended December 31, 2018 are as follows:

	SAR '000
Special commission income	337,686
Special commission expense	(201,638)
Fees and commission income	34,688
Unrealized gain on remeasurement of investment upon loss of control	34,319
Share in earnings of associates, net	12,500
Directors' remuneration	(6,309)
Miscellaneous expenses	(5,810)
Insurance contracts (2018-2019)	(545)

Directors' 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	761
Spaces for (5) ATMs in Al Rashed compound, Khobar		Annual	321
Al-Mubaraz branch – Al Ahsa Al Jubail Albalad branch ATM location in Al-Mubaraz	Al-Jabr Investment and Real Estate Co. (related party: Hesham Abdullatif Al-Jabr – Board member)	3 years ending on 31/8/2020	240
		9 years ending on 31/5/2026	788
		3 years ending on 30/6/2020	48
ATM location: Takhassusi – Aroba street	Rashed Abdrahman Al-Rashed and Sons' Company (related party: Salah Al-Rashed – Chairman of the Board)	5 years ending on 30/4/2023	45
Total rent expenses of branches and ATMs			2,203
Expenses of maintenance and purchases of money counting machines	Abana Projects Company (related party: Salah Al-Rashed – Chairman of the Board)	Purchase as needed	1,217
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	1,485
Expenses of calendars and plastic files	Saudi Technical Company for Plastic (related party: Kamal Amin Khodr- a senior manager)	Purchase as needed	905
Total			5,810

c) The total amount of compensation paid to key management personnel during the year ended December 31, 2018 is as follows:

	SAR '000
Short-term employee benefits (Salaries and allowances)	54,571
Post-employment benefits (End of service indemnity and social security)	6,547

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

Directors' Report

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, 2018.

External Auditors

In its meeting held on April 2, 2018, the Ordinary General Assembly appointed Messrs. Ernst & Young and KPMG Al Fozan & Partners as external auditors of the Bank for the year 2018.

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, 2019

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

Economic activity in 2018 remained relatively subdued with global events such as the US move to a more protectionist trade policy and the slowdown of the Chinese economy having a knock-on effect on the prospects of the world economy. The more expansionist national budget however and the stimulus expected from Vision 2030 initiatives, particularly the growth in personal home ownership, large infrastructure projects and a growth in SME activity, lay the foundations of more benign market conditions. This, allied with a continued focus on controlling costs, ensured that the Bank performed well in the year with net income growing 9.35% to reach SR 3.31 billion. Total balance sheet footings grew modestly to reach SR 178 billion by year-end.

Consumer Bank

The Consumer Bank maintained its focus on key customer segments 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.

The Bank has a total of 304 outlets: 139 male branches, 44 female branches, 13 Sales Centers, 92 TeleMoney centers, 12 SME centers and 4 Corporate branches. The physical presence of the Bank is complemented by the ever increasing self-service capabilities provided to enhance the customer experience and enable 24x7 service availability.

The Bank was the first in the Kingdom to introduce remote account opening through a video session, the service being introduced as part of the Bank's flagship digital branch located in Riyadh. The digital branch offers customers a wide range of self-service and assisted self-service that enables them to perform cash and non-cash transactions at their convenience. The roll out of further digital branches across the Kingdom is in progress to satisfy customers demand for an advanced self-service.

The Bank is continuing to focus on digital transformation across all channels with more novel solutions and services to enhance customers' experience. In keeping with global trends, significant effort is being expended to position the Bank's mobile application as the preferred channel for customers' interactions.

Enhancing the Phone Banking platform during the year facilitated easier and faster access for customers and additional services were included within the channel to meet customers' needs. New functionality is being introduced to allow the customer the option to customize his own menu in the Interactive Voice Response system to meet personal preferences. Text-based customers support is also being introduced to serve customers through social media channels and soon through direct chat.

With an ATM network exceeding 1,240, cash transactions on ATMs continue to show year-on-year increase helped by improved ATM availability. The ATM network continues to be enhanced to provide additional services and cross selling of products, in addition to dispensing cash.

Aligning with the Government strategy to move towards a cashless society, the Bank continues to encourage customers to use debit cards on POS terminals. The Bank increased the number of terminals to over 16,400 with a wide range of merchants covering the Kingdom that resulted with a 19% increase in the number of transactions. Work is currently underway to introduce digital wallets to offer Bank card holders the ability to pay using their mobile devices. By simplifying the fulfillment process and enhancing customer lifecycle management, there has been significant increase in credit card activity, the number of credit card customers increased by 7%, online purchase transactions by 14%, and payments by 8%.

The Bank recognizes that providing a superior customer experience gives a sustainable differentiation in the market. The Customer Experience department is focused on enhancing the service culture and improving efficiency to deliver a seamless end-to-end client experience across all customer touch points, both electronic and in person. Service-measuring methodologies have become a fundamental instrument in tracking, monitoring and improving overall service performance. Structured research and survey results have become a vital element in guiding action planning and making customer-centric business decisions.

The Consumer Credit Advisory Unit provides guidance and financial awareness to customers seeking advice related to Consumer Credit Products. Additionally, customers applying for Real Estate Finance are contacted by an advisor who provides them with clear information and advice regarding their responsibilities, obligations, terms and conditions and product risks thus assisting the customers in making informed decisions before committing to the product.

The reputed international World Finance magazine awarded the Bank with the "Best Retail Bank in Saudi Arabia – 2018". This acknowledgment is the result of the persistent efforts of the Bank to invest in innovative technology and match suitable products with ideal delivery channels to offer inventive services that cater to the needs of a versatile customer base.

Business Review

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

In 2018 London Branch continued the growth seen in recent years and it remains an important international outlet for the Bank servicing its primarily Saudi customer base. UK residential and commercial real estate remain important sectors and a key attraction for client investment.

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.

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's business growth continues to be consistent in line with market conditions and it caters to its customer's expectations in service delivery. Its strength lies in the personal relationship and knowledge to be a "thought partner" to its customers, to proactively provide ideas and solutions as well as ANB's wide network for them to grow their business.

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. It maintained low level of non-performing loans and continued adopting prudent banking practices.

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.

In order to best service its customer base, the Corporate Bank is increasingly implementing enhanced digital banking services for efficient transaction processing and a unique customer experience, particularly in the areas of Transaction Banking, Trade Finance, Project Finance, Treasury

and Islamic Banking. Further, aligning with Vision 2030 strategy, which encourages a move towards a cashless society, the Bank is focused on promoting the use of debit cards on POS machines and has expanded terminal numbers to 16,400 serving over 3,400 merchants.

Commercial Bank

Through the three Regional Offices in Riyadh, Jeddah and Khobar, the Commercial Bank continues to build long-term relationships with customers and hold a well-defined and profitable mid-market franchise. This is achieved through teams of dedicated and industry-specialized relationship officers having the appropriate knowledge to meet the customers' specific needs.

The Commercial Bank continues to deliver strong results while developing an expanded and diverse range of banking products and services.

Small and Medium Enterprises (SME)

In alignment with the goals of Vision 2030 and its increased emphasis on the sector, the SME segment has become a strategically important one for the Bank..

The Bank serves SME clients through dedicated Centers located in 10 key cities across the Kingdom. Specific research-based products have been developed for SMEs covering their borrowing, deposit and transactional banking services requirements.

The Bank remains committed to establishing a meaningful presence in this segment and to become a prominent provider of financial solutions to SMEs, with the active support of the Kafalah program and other initiatives underway with the Government SME authority.

Islamic Banking

The Islamic Banking Division develops and supports Islamic banking services. It provides variety of key services to the business units as follows:

Product & Business development: It develops Shariah-compliant products that provide financial solutions to customers. It also coordinates with all business segments in the Bank and supports them with the identified market segments and individual opportunities for Islamic banking.

Shariah Audit: It reviews the activities of business units and affiliates to ensure compliance with Shariah Board guidelines. During 2018, the Shariah Board reviewed Shariah audit quarterly reports.

Shariah Advisory & Shariah Board Secretariat: It responds to all inquiries related to Shariah-compliant products and services from all business segments in the Bank. It also coordinates and arranges the Shariah board meetings and reports the decisions to the concerned departments. During 2018, the Shariah Board approved a number of new products and transactions.

Training: It trains Bank employees in Islamic banking and Shariah-compliant products. During 2018, more than 100 bank employees received training.

Business Review

Branch conversion: During the year, 3 conventional branches were converted to dedicated Islamic branches. In total, 176 branches, including 44 ladies sections, representing 96% of the Bank's retail branch network, are now dedicated to providing Shariah-compliant products and services.

Treasury

Treasury continues to play a vital role in managing the Bank's liquidity and funding requirements. Treasury's pro-active portfolio and interest rates management continues to contribute positively towards the bottom line. By supporting cross-selling initiatives, Treasury provides a comprehensive range of products and solutions that are customized to meet clients' specific objectives.

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 continues to be a leader in developing home finance products posting a satisfactory 2018 performance in a challenging market. By year-end, the loan book was in excess of SR 4 billion, financing a total of around 6,600 units.

ANB/AIG/MetLife Alico Insurance joint venture

During 2018, the Bank's joint venture with AIG and Metlife-Alico, which offers general and personal lines of insurance products, continued to adapt to 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 2018 against a backdrop of a very competitive construction and contracting market.

ANB Invest

Revenue earned from the brokerage business, an important contributor to total revenue, remained steady during the year. The main generator of brokerage revenue is commissions earned on shares traded on the Saudi Stock Exchange (Tadawul & NOMU), in addition to income generated from margin trading activities. In 2018, rising oil prices, together with the announcement of the probable addition of the Saudi Stock Exchange to MSCI, had a positive impact on TASI performance.

Recent global events such as the ongoing trade dispute between the US and China along with uncertainty in Europe due to Brexit and the financial situation in Italy have led to a sharp fall in global stock markets and a slowing down in trading activity. This resulted in reduced trading activity in the final quarter of the year and suggests that 2019 will be a challenging environment for the brokerage business.

Revenue from Asset Management showed a decrease during the year, but other activities, including corporate advisory services, special commission

income, custody of securities and margin lending, witnessed a significant SAR 20 million increase in revenue.

Risk Management

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 management system.

Market risk

- Identifies, measures, monitors, and reports market and liquidity risk using a combination of tools including rate sensitivities, gap analysis, value-at-risk and stress testing.
- Assists in managing maturity and interest rate risk profile of the Bank's balance sheet.
- Ensures that the Bank's market and liquidity risk policy and limits are in line with international best practices.
- Enhances market and liquidity risk management policies and procedures to meet regulatory requirements, which include 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 new methodologies advised by Basel Committee on Banking Supervision and SAMA from time to time.
- Conducts regular training and awareness sessions Bank-wide with a focus on operational risk identification, mitigation and ownership.

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.

Business Review

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

- Identifies fraud trends and conducts fraud risk assessment for key functions in the Bank, in order to mitigate the identified risks.
- Investigates and reports suspected, attempted or actual fraudulent activities. Recommends appropriate measures to combat and prevent frauds and ensures implementation of the same.
- Conducts various trainings and awareness campaigns Bank-wide covering generic fraud aspects and fraud scenarios and trends.
- Maintains a vigilant fraud monitoring and reporting mechanism using the Unusual Transaction Monitoring System (UTMS) to analyze and monitor bank accounts as well as customers' and employees' behavior.

Credit Group

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

Compliance

The Bank aims to be compliant with all laws, rules and regulations of relevant legislative bodies and financial regulators in all jurisdictions in which it operates. Such a commitment starts with the Board of Directors and Senior Management and is embedded within the Bank's culture across all Business and Support units. The Bank is committed to protect its reputation and credibility, thereby protecting shareholders and depositors and providing safeguards against sanctions.

The Bank's Board has a collective responsibility for managing compliance risks across the group, and is supported by an Audit Committee, which oversees an independent Compliance and AML Group. The Compliance and AML Group is responsible for the following broad functions: Compliance Advisory, Compliance Monitoring, SAMA & Regulatory Affairs, Anti-Money Laundering, Regulatory Technology (RegTech), Governance/Culture, and Information Security.

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 the Compliance and AML Group. All employees are expected to carry out their duties in compliance with laws, regulations, and ethical standards, and must report any suspicious money laundering transactions. The Bank has adopted a Compliance Policy, an 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

Technology continues to evolve and the Bank is adapting to the challenge by selecting and implementing systems that enhance the customer experience. Digitization and IT modernization continue to be important initiatives with improvements in infrastructure and systems in progress to support new digital branches, enrichment of the mobile platform and the front-end Trade platform.

New technology services were initiated for STC Pay to expand into digital payments. This was the first time that technology services were offered to non-Bank customers. Banking services to Bank customers through Saudi Post was also piloted successfully.

Work is also underway to streamline technology operations, simplify processes and deploy smart tools to achieve efficiency.

Human Resources

During 2018 the Bank continued to focus on employee development, building a strong training curriculum at various levels that cover all areas of the Bank's training needs. Additionally, the second group of employees were identified to participate in the High Potential Program, which is now underway. The Saudization drive continues 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 2018, the Bank undertook various activities across the key pillars of its Corporate Social Responsibility policy: social and environmental, in addition to in-house employment practices. These include initiatives connected with breast cancer awareness and prevention, sponsorship of cultural events, support for financial education and charitable donations to child disability causes.

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