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King Abdullah Bin Abdul  
Aziz Al Saud

The Custodian of the  
Two Holy Mosques



His Royal Highness Prince  
Sultan Bin Abdul Aziz Al Saud

The Crown Prince, Deputy Premier  
and Minister of Defence and  
Aviation and Inspector General

I am pleased to present the Annual Report of Arab National Bank (ANB) for the year ending 31 December 2005.

The Saudi economy has witnessed exceptional growth during 2005, the best in the Kingdom's history, with GDP expected to have increased by 26% to US\$ 316 billion. Record high oil prices have significantly boosted the economy. This situation - price rises driven by strong underlying demand and tight supply - is likely to continue for many years.



**Abdullatif Hamad Al-Jabr**  
Chairman

The current account surplus is expected to stand at US\$ 96 billion, representing 30% of GDP, for the seventh year in a row of surpluses. The budget surplus is expected to be US\$ 51 billion, despite a 20% increase in government spending over the budget. It should also be noted that the growth in the Saudi economy during 2005 has predominantly been driven by an expansion in bank lending to both consumers and businesses, with government spending resulting from increased oil revenues yet to impact on the economy.

Reflecting these favourable conditions, the Saudi stock market rose by 104% during the year. This rise follows increases of 85% and 76% in 2004 and 2003 respectively. The capitalisation of the Saudi stock market at the end of 2005 reached a record level of SAR 2,418 billion (\$645 billion). The overall price earnings ratio for the market stood at 36.5%, based on year end prices and 2005 company earnings.

Against a backdrop of such a favourable economic environment, our Bank recorded a 57% increase in net profit to reach a record of SAR 1.8 billion ( \$ 487 million ). This result follows on the back of another exceptionally positive year where net profit also grew by 52%. Our return on equity at the end of 2005 stood at 32.3%, which is now among the highest in the region.

To meet the strong growth in loan demand, for the first time in its history ANB tapped the syndicated loan market for a US\$ 350 million, three-year loan. This was heavily over-subscribed, reflecting the confidence which the Bank enjoys in the international banking community.

The buoyant economy has benefited the entire banking sector and we are very pleased to have been well positioned to benefit significantly from these favourable economic conditions. Equally importantly, however, we have ensured that business growth is measured and balanced across all business activities, and that our cautious and prudent assessment of risk is strictly maintained.

As always, our aim is to grow our business and profits on a sound and consistent basis. Looking back, in fact, our profits over the past five years have grown in a strong and sustainable manner, at a compounded average annual rate of 35%.

During the year the Bank expanded its Islamic banking offerings in response to customer demand. We introduced innovative new products which have met with considerable success, such as the Al Tawaruq Al Mubarak and Al Mahalli consumer finance products, the Mubarak Credit Card and the Naqa Saudi Equity companies fund, the only fund in the country which invests in 100% pure Sharia-compliant Saudi companies. ANB also established several separate Islamic banking branches which offer only Sharia-compliant products and services.

ANB has had a pivotal role in arranging a number of major financing transactions in the Kingdom during 2005. Perhaps the

most prominent was as lead arranger of the SAR 1,800 million, 12 year aircraft acquisition financing for Saudi Arabian Airlines, or 'Saudia'. We also concluded a SAR 500 million bilateral securitisation transaction with Abdullatif Jameel Group, the country's Toyota distributor, and we were one of the mandated lead arrangers of the SAR 3,500 million, 15-year term loan to Saudi Electricity Company.

The Bank introduced important new products during 2005, including our internet-based share trading service, letter of credit services via the internet and a state-of-the-art cash management platform. We also commissioned a new disaster recovery and business continuity centre from which the entire operations of the Bank can be resumed in case of need.

In recognition of ANB's consistently strong performance, we are pleased that over the past few years we have won a number of awards, such as 'Best Bank in Saudi Arabia' from Global Finance, 'Bank of the Year' from the Banker magazine, 'Best Foreign Exchange Bank' from Global Finance and 'Best Overall Fund Manager' among Saudi banks for the performance of our funds under management.

These excellent results, however, could not have been achieved without the high quality of our management and staff. We are committed to the development and training of our staff, as well as to the recruitment of the most promising Saudi talent, maintaining our commitment to continually increase the level of Saudisation, which now stands at 89% of all staff.

The coming year will present new challenges with the continuing development of the regional economies and the global economic environment. However, I am confident that Arab National Bank is well positioned to continue to build on its achievements.

Based on the overall financial results, the Board of Directors has recommended to grant three bonus shares for every ten shares held, plus a cash dividend of SAR 5 per share for the second half of 2005. Together with the semi-annual dividend of SAR 5 per share, the total cash dividend paid to shareholders for 2005 amounts to SAR 548 million.

On behalf of my fellow directors, I wish to express our appreciation for the support and encouragement extended by the Custodian of the Two Holy Mosques and the Crown Prince, to the Minister of Finance and the Governor of the Saudi Arabian Monetary Agency.

Finally, we extend our thanks to our valued clients and correspondent banks for the continuing trust they place in our institution. I would like also to take this opportunity to express my appreciation to the pioneer of the Arab banking industry the late board member Mr. Abdelmajeed A. Shoman for his significant contribution and support to the bank since its inception.

I also wish to express my deepest thanks and appreciation to our ex-Managing Director Mr. Nemeh Sabbagh, who played a valued role in taking Arab National Bank performance and services to higher levels over the past seven years, and we are pleased to welcome our new Managing Director, Dr. Robert Eid, who brings on a wealth of international financial and economic expertise, with several years of regional and international banking experience. We are confident of his ability to lead the Bank to new frontiers.

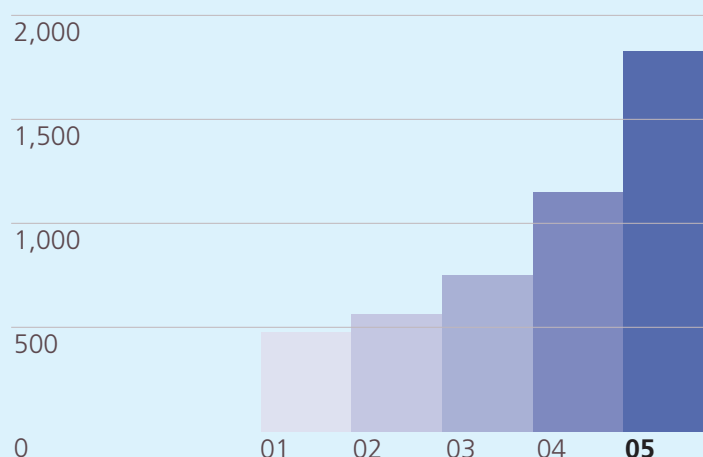


**Abdullatif Hamad Al-Jabr**  
Chairman

In recognition of ANB's consistently strong performance, we are pleased that over the past few years we have won a number of awards, including the 'Best Bank in Saudi Arabia' from Global Finance.

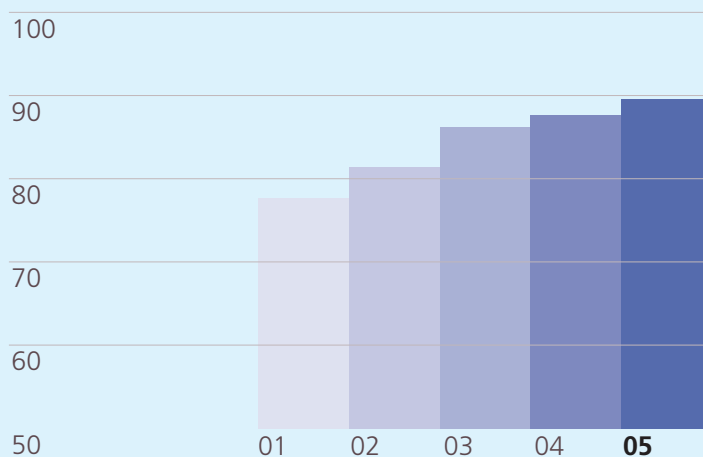
#### Net Income

**SAR 1,828mn**



#### Saudisation

**89%**



Our ability to predict and keep pace with trends in the banking world – such as the use of internet banking, the introduction of truly Islamic products and the exploration of new business markets – has kept ANB ahead in a very competitive field.

Saudi Riyals in Millions

	2001	2002	2003	2004	2005
Net Commission Income	1,266	1,408	1,520	1,886	<b>2,189</b>
Net Income before Provisions	789	906	1,083	1,488	<b>2,076</b>
Net Income	486	584	767	1,167	<b>1,828</b>
Revenue to Expense Ratio	2.07%	2.09%	2.32%	2.57%	<b>2.86%</b>
Return on Assets (ROA)	1.3%	1.4%	1.6%	2.1%	<b>2.8%</b>
Return on Equity (ROE)	14.9%	16.9%	20.4%	24.9%	<b>32.3%</b>
Provisions / NPL Coverage Ratio	79%	99%	135%	182%	<b>201%</b>
Investments	19,251	19,065	21,481	21,187	<b>20,423</b>
Loans and Advances, net	13,867	16,016	20,172	28,558	<b>38,779</b>
Total Assets	39,469	44,299	49,201	63,325	<b>67,492</b>
Customer Deposits	26,128	28,166	33,723	46,316	<b>48,832</b>
Total Equity	3,366	3,548	3,977	4,970	<b>6,337</b>
Saudisation Ratio	78%	81%	86%	87%	<b>89%</b>



Capital Intelligence  
(Long Term)



Fitch Ratings  
(Long Term)



# Board of Directors



**Abdullatif H. Al-Jabr**  
Chairman



**Robert Eid**  
Managing Director (appointed 1st January 2006)

## Shareholders

Saudi Shareholders 60%  
Arab Bank Plc  
(Amman, Jordan) 40%

## Executive Committee

Robert Eid  
Chairman

Salah R. Al-Rashed  
Ahmed A. Al-Akeil  
Khaled M. Saad Albawardi  
Dr. Farouk El-Kharouf



**Rashid Saad Al-Rashid**



**Salah R. Al-Rashed**



**Abdullah  
Ibraheem Silsilah**



**Ahmed A. Al-Akeil**



**Khaled M. Saad  
Albawardi**



**Abdel Hamid A. Shoman**



**Dr. Farouk El-Kharouf**



**Omar Muneeb Al-Masri**

## Audit Committee

Rashed Salel Al-Bakar  
Chairman

Othman M. Al-Tuwaijri  
Dr. Farouk El-Kharouf

## To the Shareholders of Arab National Bank

The Board of Directors is pleased to submit to shareholders the Annual Report of the Arab National Bank for the financial year ending December 31, 2005.

### Overview

Arab National Bank (ANB) has had another very successful year. The Bank has benefited from favorable economic conditions within the Kingdom while at the same time strengthening and improving service to customers and diversifying the services into new areas of business.

The Bank has earned a record net income of SAR 1,828 million during 2005, an increase of 57% over the net income of SAR 1,167 million in 2004. Earnings per share also rose to SAR 36.55 from SAR 23.34 in 2004 as restated to reflect the 1-for-4 bonus share issue as approved by the Extraordinary General Assembly Meeting during March 2005.

Continued strong earnings growth across the full range of products and services offered by the Bank characterized the results for 2005. The Return on average assets (ROA) improved to 2.8% from 2.1% last year, while return on average equity (ROE) increased to 32.3% from 24.9% a year earlier. The compounded annual earnings growth rate for the last five years is 35%.

As a result, the Bank has grown in size – with more customers than ever before – and achieved very strong results for 2005. Equally important, we have maintained a measured approach to business development, focused balanced growth and a cautious and prudent assessment of risk.

Due to the outstanding performance during 2005, the Board of Directors recommends payment of a final net dividend of SAR 5 per share bringing the total net dividend for 2005 to SAR 10 per share as an interim net dividend of SAR 5 per share was paid during July 2005. The Board also recommends the grant of three bonus shares for every ten shares held and transfers of SAR 500 million to the statutory reserve and SAR 730 million to the general reserve.

### Operating Results

The Bank's net income for 2005 reached an unprecedented level at SAR 1,828 million an increase of 57% over the previous year. This increase is due to considerable growth in most income categories resulting in a 29% increase in total operating income to SAR 3,142 million while the continued focus on operating expenses limited the growth of total operating expenses to 4%.

Net special commission income, which is comprised of special commission income from inter-bank placements, investments and loans less special commission expense from customer deposits, inter-bank and other borrowings, increased to SAR 2,189 million from SAR 1,886 million a year earlier. This increase is due to growth in the balance sheet and improving margins

whilst maintaining a strict conservative credit culture. This asset growth is driven by prudent growth in corporate and retail lending, expansion of the deposit base and an effective management of assets and liabilities.

Fee income witnessed strong growth to reach SAR 694 million from SAR 422 million the year before, an increase of 64%. Exchange income also reported a healthy increase of 22% over previous year reaching SAR 114 million by the end of 2005. The Bank also realized SAR 91 million in investment gains benefiting from favorable opportunities during the year as compared to SAR 8 million 2004.

Operating expenses including provision for credit losses increased to SAR 1,314 million from SAR 1,261 million during 2004. Revenue to expense efficiency ratio increased from 2.57 times in 2004 to 2.86 times in 2005. Revenues in this ratio exclude investment gains and, likewise, expenses exclude provision for credit losses.

### Financial Position

Total assets at December 31, 2005 amounted to SAR 67,492 million as compared to SAR 63,325 million twelve months earlier, a rise of 7%. This is mainly due to an increase of loans and advances by SAR 10,221 million to SAR 38,779 million.

On the liabilities side of its balance sheet, the Bank managed to grow customer deposits by 5% or SAR 2,516 million to SAR 48,832 million at year end 2005. On March 22, 2005, the Bank entered into a three-year syndicated term loan facility agreement for an amount of USD 350 million for general banking purposes. The facility was drawn down in full on April 4, 2005 and is repayable during 2008. There has been no repayment of the loan during the year.

### Capital Account

Total shareholders' equity stood at SAR 6,337 million at year end 2005 compared with SAR 4,970 million at the 2004 year end with 50 million shares outstanding.

The Bank's financial position - as in previous years - continues to reflect strong indicators and high ratios with regards to liquidity and capital adequacy. At December 31, 2005 the bank's capital adequacy ratio was 14% compared with the minimum requirement of 8%, further confirming the bank's strong financial position.



## Principal activities

The Bank's principal activities are organized into three segments: Retail Banking, Corporate Banking and Treasury Banking. The main activities of the Bank's three segments are described below.

**Retail banking:** Deposit, credit and investment products for individuals.

**Corporate banking:** Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London branch.

**Treasury banking:** Manages the Bank's trading and investment portfolios and the Bank's funding and liquidity, currency, and commission risk.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia through 116 branches with one international branch located in London, United Kingdom. However, the total assets, liabilities, commitments and results of operations of the London branch are not significant in the context of the Bank's overall financial statements.

The Bank's total assets and liabilities at December 31, 2005, its total operating income, expenses and net income for the year then ended, by business segments, are as follows:

SAR in millions

	Retail Banking	Corporate Banking	Treasury Banking	Total
Total assets	20,515	21,201	25,776	67,492
Total liabilities	22,024	4,169	34,962	61,155
Total operating income	2,282	494	366	3,142
Total operating expenses	866	373	75	1,314
Net income	1,416	121	291	1,828

## Corporate Governance

The Board of Directors considers that good governance is central to achieving the Bank's governing objective of maximizing shareholder value over time. The general framework for corporate governance ensures equitable treatment amongst all shareholders. It also ensures the availability of timely and precise information in all material matters concerning the Bank, along with the accountability of the Board of Directors to the Bank and its shareholders. The Bank follows directions and guidelines of Saudi Arabian Monetary Agency (SAMA) and recommendations on corporate governance by the Basel Committee. The Bank also follows the regulatory requirements of the countries in which it operates.

## Board of Directors

The primary objective of the management structures within Arab National Bank, headed by the Board of Directors and led by the Chairman, is to deliver sustainable long-term value to shareholders. Implementation of the strategy set by the Board is delegated to the Managing Director (Chief Executive Officer), who is supported by an Executive Committee of board members.

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

The full Board of Directors met four times during the year. The Board of Directors has a clearly documented schedule of matters reserved for it, which includes the agreement of strategies and budgets, approval of major capital expenditures and policies covering treasury, credit, the annual Internal Audit plan and authority levels for expenditure. All Directors have full and timely access to relevant information and have access to the advice of the Company Secretary and to independent professional advice where needed in furtherance of their duties at Bank's expense.

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

In its meeting held on March 13, 2005, the Extraordinary General Assembly re-elected the following as Saudi Board members, for a period of three years with effect from May 1, 2005: Abdullatif Hamad Al-Jabr, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah and Khaled M. Saad Albawardi. The members of the Board has re-elected Abdullatif Hamad Al-Jabr as its Chairman.

Board members at December 31, 2005 nominated by Arab Bank are Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf, Omar Muneeb Al-Masri replacing late Abdel Majeed A. Shoman, and Nemeh Sabbagh, Managing Director, whose services ended on 31/12/2005. Dr. Robert Eid was appointed as Managing Director effective 1/1/2006.

Four regular Board meetings were held during 2005. Below is the attendance record:

Date	Attendance record
March 13, 2005	Abdullatif Hamad Al-Jabr, Nemeh Sabbagh, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, and Dr. Farouk Al-Kharouf
June 5, 2005	Abdullatif Hamad Al-Jabr, Nemeh Sabbagh, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, and Dr. Farouk Al-Kharouf
September 18, 2005	Abdullatif Hamad Al-Jabr, Nemeh Sabbagh, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, and Dr. Farouk Al-Kharouf
December 18, 2005	Abdullatif Hamad Al-Jabr, Nemeh Sabbagh, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Abdel Hamid A. Shoman, and Dr. Farouk Al-Kharouf



## Principal Board Committees

The Board has established a number of committees, each with specific terms of reference, consisting of certain directors and senior executives. Following are the principal committees:

### Executive Committee

The Executive Committee is composed of the Managing Director and four members selected from among the Board members. Chaired by the Managing Director, the Executive Committee meets twice a month and acts as a general management committee under the delegated authority granted by the Board of Directors. This Committee is responsible for implementing Bank policy, monitoring business performance, managing risks and ensuring the effectiveness of internal controls, approving sizable capital expenditure for recommendation to the Board of Directors and ensuring efficient and effective management of the Bank.

### Audit Committee

The Audit Committee assists the Board of Directors in meeting its responsibilities for reviewing the effectiveness of the system of internal control and for approving the accounting policies and financial statements of the Bank. The Audit Committee also considers the plans and findings of the Internal Audit Division. It provides a direct channel of communication between the external auditors and the Board, helping to ensure that the external audit is conducted in a thorough and effective manner and that reports by the external auditors are actioned as appropriate.

The Committee recommends appointment of external auditors and reviews the plans and results of their work. The bank applies rules and guidelines for banks in Saudi Arabia for organizing audit committees issued by the Saudi Arabian Monetary Agency.

The Committee is comprised of a board member and two independent non-executive directors, one of whom is the Chairman of the Committee. The Committee met six times during 2005. The committee also met with the Managing Director, the Chief Financial Officer, the Head of Internal Audit, and other Senior Management as and when required for discussions and deliberations.

During 2005, the Audit Committee was comprised of Mr. Rashed Saleh Al-Baker (Chairman), Mr. Othman M. Al-Tuwaijri and Dr. Farouk El-Kharouf.

### Internal Control Framework

The Board of Directors is ultimately responsible for internal control in the Bank and for reviewing its effectiveness. Systems and procedures have been designed for facilitating effective and efficient operations, for safeguarding assets against unauthorized use or disposition, for maintaining proper accounting records, for the reliability of financial information used within the business or for publications, for compliance with applicable laws and regulations and for monitoring internal policies with respect to the conduct of business. Such systems are designed to manage, rather than to eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

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

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

- Authority to manage the businesses of the Bank is delegated to the Managing Director within limits set by the Board of Directors. There are bank-wide policies, procedures and manuals in place covering financial controls, business processes, information security, credit policy and compliance with regulatory and legislative requirements. In addition, delegated limits apply to all transactions and risk positions to ensure that exposures are controlled. The accountabilities of key managers are designed to ensure appropriate segregation of duties.
- In each of the key business areas, regular independent checks are made on operating performance and customer service to ensure that control procedures are being observed.
- Systems and procedures are in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational errors and fraud. Exposure to these risks throughout the Bank is monitored by each of the Operational Risk Steering Committee, the Asset and Liability Committee ("ALCO") and the Bank Credit Committee. These exposures are also monitored by the Executive Committee.
- Risk assessments are also completed as part of all project appraisals, and risk is considered within the budget and business planning exercises, which are reviewed and approved by the Board of Directors.
- There is a system of financial reporting to the Board of Directors based on an annual plan, with monthly reports of actual results, analysis of variances from plan, review of key performance indicators, and regular updates to forecasts.
- Centralized functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes.
- Compliance in the Bank is controlled centrally under the Bank Compliance Officer. Divisional compliance officers are in place in all of the Bank's operating divisions.
- Comprehensive budgeting systems are in place with annual financial budgets prepared and approved by the Board of Directors. Actual results are monitored and there is regular consideration by the Board of Directors of progress compared with budgets and forecasts.
- The Internal Audit Division monitors compliance with Bank policies and procedures and the effectiveness of internal control structures across the Bank as a whole. The work of Internal Audit is focused on the areas of greatest risk. The Chief Internal Auditor reports to the Board of Directors and to the Audit Committee.

The Operational Risk Steering Committee meets regularly under the delegated authority of the Managing Director. This Committee ensures that the Bank's risk management framework is effective, and that a sound system of internal controls is in place, remains effective and is embedded throughout the organization. The Operational Risk Steering Committee is chaired by the Managing Director and includes as members certain senior executives.

The Audit Committee reviews the effectiveness of the system of internal control and reports regularly to the Board to assist in its review of effectiveness of the system of internal control.

### Communication with Shareholders

Communication with shareholders is given a high priority. Extensive information about Bank's activities is provided in the Annual Report and Accounts and in the Interim Reports, which are published in the newspapers and are also posted on Bank's website. Further investor information is accessible on the Bank's website, [www.anb.com.sa](http://www.anb.com.sa). There is a regular dialogue with institutional investors. Inquiries from individuals on matters relating to their shareholdings and the Bank's business are welcomed and are handled in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Bank.

### Assets and Liabilities analysis and trends

Below is an analysis of the major assets and liabilities for the last five years:

SAR in Millions	2001	2002	2003	2004	2005
<b>Assets</b>					
Cash and balances with SAMA	1,899	3,134	1,678	7,061	2,495
Due from banks and other financial institutions	2,815	4,387	4,195	4,732	3,934
Investments, net	19,251	19,065	21,481	21,187	20,423
Loans and advances, net	13,867	16,016	20,172	28,558	38,779
<b>Liabilities</b>					
Due to banks and other financial institutions	8,138	10,041	9,109	9,821	8,377
Customer deposits	26,128	28,166	33,723	46,316	48,832
Term loan	-	-	-	-	1,313

### Outstanding Statutory Payments

Outstanding statutory payments are as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders	28.6
Income tax payable by the non Saudi shareholders	152.6

### Human Resources

The bank had 2,869 staff at the end of 2005, compared to 2,491 at the end of 2004. The Saudization ratio at the end of 2005 reached 89%.

### Donations and Social Responsibility

As an active and dedicated member of Saudi society, the Bank has a strong belief in its role in the society it is honored to serve. This approach is demonstrated by the Bank's continued assistance to charitable, educational, and other social institutions, where the bank attached donations totaling SAR 10 million during 2005.

### Remuneration of Board Members

The members of the Board of Directors remuneration amounted to SAR 1,200,000 in 2005, while attendance fees for board, executive committee, and audit committee meetings were SAR 102,000, SAR 243,000, and SAR 78,000 respectively. Actual expenses of board members totaled SAR 395,242 including travel and accommodation expenses to attend board, executive committee, and audit committee meetings.

### Conflicts of Interests

The Bank did not have nor enter into any contract in which any member of the Board of Directors, the Managing Director, the Chief Financial Officer or any associates is or was having any material interest.

### External Auditors

In its meeting held on March 13, 2005, the Extraordinary General Assembly appointed Messrs. Ernst & Young and Deloitte & Touche Bakr Abulkhair & Co. as external auditors of the Bank's accounts for the year 2005.

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

The Directors are required by the Companies Act to prepare financial statements for each financial year which give a true and fair view of the financial position of Arab National Bank (ANB) together with its subsidiary undertakings as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that ANB has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis. The Directors consider that in preparing the financial statements, ANB has maintained proper books of accounts and used appropriate accounting policies as disclosed in the 'Notes to the Financial Statements', consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

The Directors consider that the system of internal control highlighted above, which complies with Saudi Arabian Monetary Agency guidelines, is sound in design and has been effectively implemented.

The Directors have responsibility for ensuring that ANB keeps accounting records which disclose with reasonable accuracy at any time the financial position of ANB and which enable them to ensure that the financial statements comply with the Companies Act, the Banking Control Law and the Listing Rules issued by Capital Market Authority.

### Board of Directors

16 January 2006

## A strong commitment to excellence

Arab National Bank (ANB) has had another extremely successful year. We have benefited from favorable economic conditions within the Kingdom while at the same time strengthening and improving our service to customers and diversifying into new areas of business.



**Nemeh Sabbagh**  
Managing Director (resigned 31st December 2005)

*Thank you Nemeh for your dedication, hard work and distinguished contribution.*

The result is that ANB has grown in size – with more customers and more branches than ever before – and achieved very strong results for 2005. Equally important, we have maintained a measured approach to business development, focused balanced growth and a cautious and prudent assessment of risk.

Our ability to predict and keep pace with trends in the banking world – such as the use of internet banking, the introduction of truly Islamic products and the exploration of new business markets – has kept ANB ahead in a very competitive field. We have underpinned our success over the year with a strong commitment to maintaining robust and efficient financial systems and controls and to developing a highly skilled, professional staff team.

### Retail Banking Group

ANB has capitalized on the buoyant economy experienced throughout 2005 to further strengthen its position in retail banking in the Kingdom.

During the year we have concentrated on: attracting and retaining new customers; significantly improving service levels across all customer touch points; product innovation to meet changing customer needs; strengthening our risk management and enhancing our customer revenues. We have also focused on cross-selling products to our existing customers, greatly increasing our profitability.

To take advantage of the Kingdom's rapidly expanding retail banking market, we invested substantially in opening and relocating our branches and investment centres. We have further expanded our reach by installing new ATMs, opening new TeleMoney centres for expanding our remittance business and upgrading many banking systems to bring the latest product and service features to our customers.

The Bank also expanded its sales force significantly, with the result that we are attracting more new customers. To give our new and existing customers the best possible service, we have re-trained our staff in sales, service and risk.



### Branch Banking

Our Distribution Plan was put into practice during the year, with the objective of greatly extending the reach of our network throughout the Kingdom, by:

- Expanding our distribution network (all channels, including branches), sales agents, phone banking, ATMs, Internet etc.)
- Upgrading all channels technologically and integrating them to provide a world class customer experience.
- Reaching our customers proactively through the most cost effective channels.
- Coordinating all the various branches and remote channels to provide standardized services, 24/7, 365 days a year.

The Branch Relocation and Expansion Plan forms an integral part of our overall Distribution Plan. Our aim is to create model branches in strategic locations to serve the growing needs of our customers with state-of-the-art financial solutions. Under this programme, several new branches are being constructed while many others are being expanded and relocated to more relevant locations. In addition, we opened more ladies' sections, enabling women to conduct their banking transactions in privacy, enjoying excellent service quality. We have also invested in revitalizing our brand by changing all the branch signages, installing many new ATMs across the Kingdom and improving service standards across all our channels.

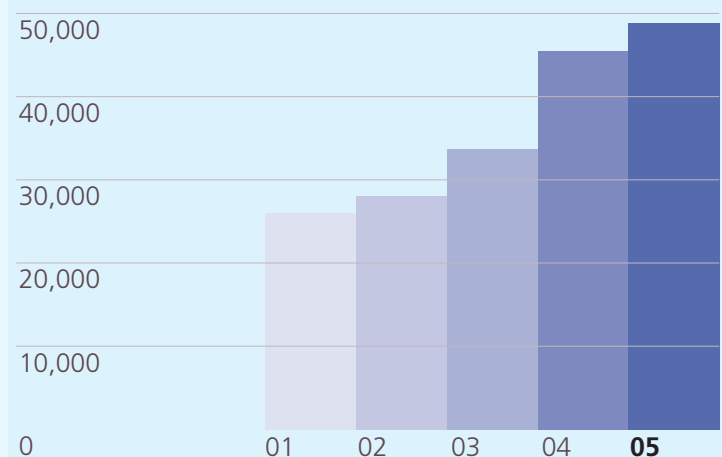
ANB have converted nine branches into 'Islamic branches,' bringing the total to 12 branches and is in the process of converting more branches. We conducted several seminars, together with our sharia committee, to explain our Islamic products to our current and potential customers and these have been received very favorably by our customers and the media. During 2005, we recruited many fresh graduates from premier institutes to all parts of the retail bank to develop the managers of the future.

The Bank has been privileged to have been associated with pensioners for more than 20 years in an exclusive and highly valued relationship – one where ANB continuously work to meet their financial needs. In 2005, we invested in a state-of-the-art system to greatly improve our services to pensioners when they open an account, make enquiries or request any other service on their account.

To take advantage of the Kingdom's rapidly expanding retail banking market we invested substantially in opening and relocating our branches and investment centres.

### Customer Deposits

**SAR 48,832mn**





We have reviewed our controls, policies and procedures to increase productivity against the backdrop of the Kingdom's continually changing banking environment.



## Branch Banking (continued)

The branches are well supported by remote banking channels. One of our goals is to encourage customers to use ATMs, phone banking and the Internet to perform their routine financial transactions. This leaves more time for our branch personnel to meet customers personally, to offer them quality service and cross-sell other products. In 2005, our phone banking services were rated very highly by an independent third party, as part of a benchmarking process against our competitors.

This year ANB identified key personnel in the branches and enhanced their selling and operational skills through regular training. We have reviewed our controls, policies and procedures to increase productivity against the backdrop of the Kingdom's continually changing banking environment. Our staff capacity has been increased significantly in the branches to match the growth in transaction volumes.

## Consumer Loans and Credit Cards

The consumer loan market has seen very high growth rates in 2005 and ANB has responded proactively to the growing demand for this facility.

Our Islamic consumer loan product 'Al Tawaruq Al Mahalli' has been a great success in a highly competitive market. The product is very well received by the target market since it offers a financial solution to the main issues attached to similar products in the market.

Using Al Tawaruq Al Mahalli, the customer can take delivery of the product locally, without the Bank acting as an agent at the time of sale. Also, the Bank sells a product that it owns. These features, coupled with a 48 hour delivery service standard, ensured a tremendous response from our customers.

In 2005, we launched 'Al Manzil Al Mubarak', an Islamic housing finance product. This product, which is based on Ijara, has attracted good customer response. It is currently offered in six cities across the Kingdom, namely Riyadh, Jeddah, Dammam, Al Khobar, Mecca and Madinah.

The credit card issuing business saw excellent growth during 2005. We doubled our portfolio, more than doubled the number of new customers and reduced delinquencies further from the year before. This business has become highly profitable. Thanks to our past investment in state-of-the-art technology and early fraud warning systems for the credit card business, we are able to offer our customers a unique service.

Much of the success of this sector of our business is due to our customers' acceptance of our Islamic Credit Card.

The credit card acquiring business recorded impressive growth in terms of new customers and in improvements to the merchant service. We invested in setting up a private network to ensure approval of customer transactions made with our key merchants, thereby providing a better service to both parties.

Our consumer loan and credit card portfolios are well managed and the portfolio quality has improved year on year. The Bank has improved the Credit MIS and implemented the new FINNONE system enabling us to offer new, improved product features to our customers, and helping us to maintain our competitive advantage.

## TeleMoney

ANB consolidated the leading position of our remittance business by taking some key strategic decisions. We decided to exit the remittance business for some countries but maintained market dominance in others such as the Philippines and entered into new markets, building significant volumes in a remarkably short period. ANB successfully increased its market share in countries with lucrative and large remittance business.

We expanded our distribution to 31 remittance centres (up from 27 in December 2004) and plan to reach 41 centres by 2008. The Bank also started offering the remittance services from our remote branches, thereby increasing our coverage across the Kingdom. ANB is working closely with large employers to set up offices in their premises to offer convenient remittance services to their expatriate employees.

During 2005, the Bank reviewed all its correspondent banking relationships to add new impetus to our customer relationships. As a result of this review, we have increased our sales force, as well as supporting sales with high intensity campaigns followed by a series of promotional campaigns. ANB relocated several existing remittance centres to much larger, well located centres to manage the growing volume of transactions. We launched several new products, customised to each country of operation, to gain competitive advantage.

Going into the future, we plan to progress into online transmission for remittances, giving us a low-cost platform and a significant improvement in turnaround time. This will also help us process the large volume of transactions during peak periods without sacrificing service levels.

During the year, ANB trained all staff regularly to ensure compliance with 'know your customer' policies and we also promoted a strong spirit of service and sales culture to our staff through various programmes. The Bank looks forward to 2006 as a major growth year for the remittance business.

In order to respond to customer expectations and cater to their needs, the Bank started expanding its Islamic banking offerings, and has converted a number of traditional branches into Islamic ones exclusively offering Shari'a-compliant products and services.

During 2005 the Bank launched the first fully Shariah-compliant Saudi Equity Fund (Naqa') amongst other products.



### Investment Services

This has been another record year for the Investment Services Group. The Saudi Arabian economy has remained extremely buoyant, primarily supported by the continuing high level of oil prices throughout 2005 due to growth in global demand and continuing geo-political concerns over supply. The Group continues to provide a comprehensive range of products to its customers, primarily in Saudi Arabian and international share brokerage and investment funds.

The Saudi Arabian share brokerage department yet again recorded its most successful year on record, with further significant increases in business both in terms of revenue and trading volume. This has been achieved on the back of the third year of boom in the Saudi Arabian stock market. The Bank continues to provide the most comprehensive trading and price dissemination networks in Saudi Arabia, enabling customers to access the Saudi share market from well over 70 locations throughout the Kingdom.

The Asset Management Division had a successful year, although growth in terms of assets under management has been under pressure due to the potentially advantageous returns for customers investing directly in the Saudi stock market. Despite this, assets under management in the stock market have trebled.

During 2005 the Bank launched the first fully Shariah-compliant Saudi Equity Fund (Naqa') amongst other products. ANB continues to invest in developing appropriately trained and accredited investment advisers, able to meet with customers and help them develop their own investment strategies.

The Investment Services Group continues to provide leading products and services to customers and is committed to further increase ANB's share of the Saudi investment market. Customer service is a crucial element in this development, which ANB is committed to improve through continuing investment in technology and, more importantly, in its employees. All investment personnel are trained for the new Basic Investment Accreditation Certificate under the auspices of the Saudi Arabian Monetary Agency.

### Corporate Banking

Corporate Banking continued to increase momentum, achieving yet another year of strong performance. We improved the quality of our delivery by introducing new products and services to meet customers' growing demands, and we strengthened our capabilities by introducing product specialists in appropriate fields and investing in new technology. Our results show a significantly improved contribution to the bottom line, and a much healthier mix of fee/net interest income.

Our Syndication and Corporate Finance team gained further inroads in attracting lucrative project finance and syndication businesses in the Kingdom, as principal lenders and mandated lead arrangers. ANB led a consortium of local banks to provide a 12 year, SAR 1,800 million financing arrangement to Saudi Arabian Airlines to upgrade their fleet. The Bank was also one of the mandated lead arrangers of a SAR 3,500 million, 15 year financing package to enable Saudi Electricity Company to expand their Shoaiba power plant.

In the western region, where our business growth has been impressive, we provided a SAR 500 million receivables securitisation facility to the Abdullatif Jameel group of companies, which holds the Toyota dealership in the Kingdom. This is the first securitisation deal completed by ANB and we plan to further explore and strengthen this sector.

This year ANB also rolled out a new state of the art cash management product. In addition, we are focusing on growing our trade finance business and continue to invest further in our trade capabilities and services. As a result of our successes, in 2005, for the first time ever we won the prestigious Global Finance award for the Best Trade Finance Bank in KSA.

In response to our customers' needs, the Bank has invested in further developing Islamic banking products and offering structured products in trade, treasury and foreign exchange as value additions to our services.

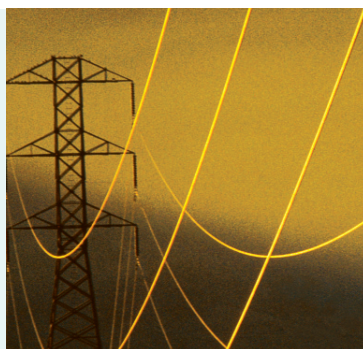
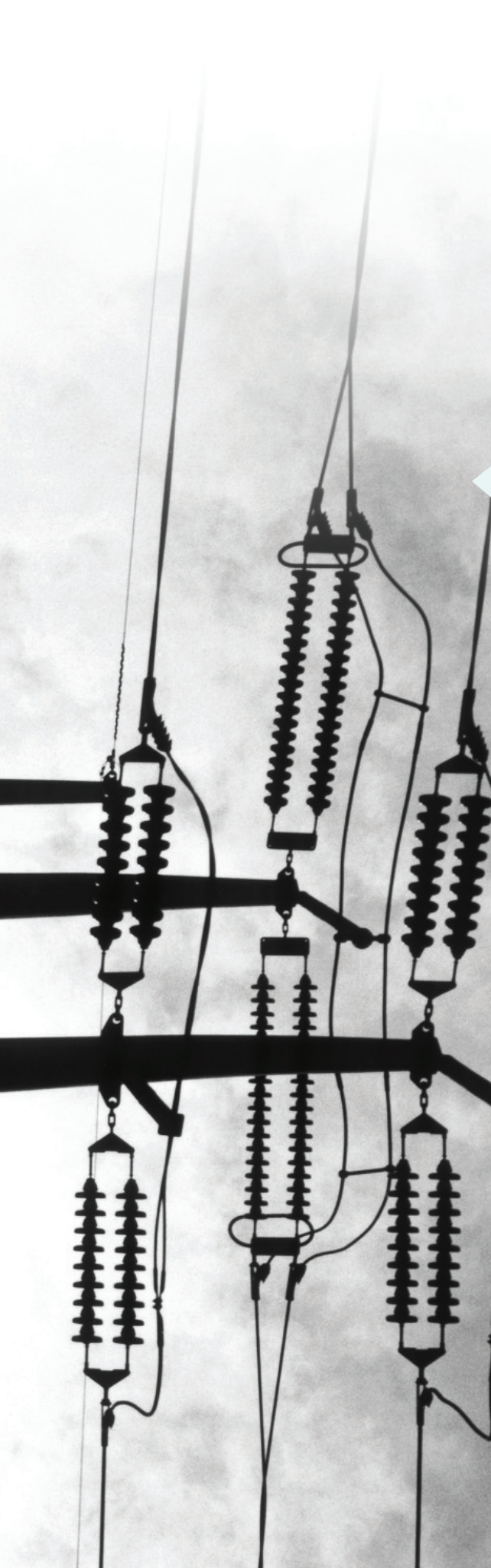
We are continuing to refine our client coverage with increasing support from product specialists working alongside our Relation Management Team, to the direct benefit of our customers.



Going forward, the country's strong economy, coupled with developments in the capital markets, give us an opportunity to further expand activities into broader areas of the market.



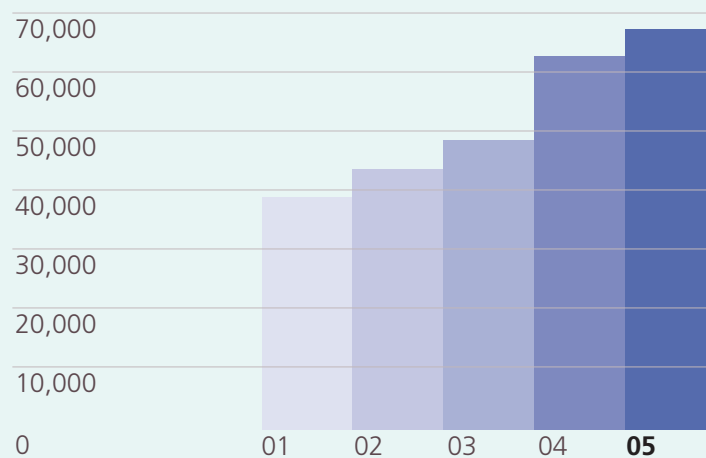




ANB was one of the mandated lead arrangers of a SAR 3,500 million, 15 year financing package to enable Saudi Electricity Company to expand their Shoaiba power plant.

Total Assets

**SAR 67,492mn**







## Commercial Banking

ANB's commercial banking service once again saw excellent growth in 2005. Launched six years ago and now fully established, commercial banking has matured into a full fledged entity which manages the bank's mid-market portfolio and proactively meets the needs of ANB's customers. The current portfolio represents a well diversified and strong base, with higher yields and good credit quality. We are regarded as one of the key players in the mid-market and small business segments in the Kingdom.

Capitalising on the benefits gained from the industry specialisation which we initiated in 2004, ANB has been able to translate its plans into actual results. Our industry specialist teams, along with the small business unit, have used their expertise to both improve the level of services and tailor them to specific industries, resulting in significant growth of our business. Industry specialisation has laid a foundation for our long-term sustainable growth in this area, as well as increasing our market share and adding new names to the portfolio.

## Treasury

ANB's Treasury Group continued to grow across all business areas, resulting in strong performance, and improved returns without compromising on the risk taken in managing market exposures. Returns on investments have shown an upward trajectory, something that is encouraging given the difficult market conditions. Our new management techniques, which aim to enhance risk-adjusted returns on the portfolio, have helped to optimise returns, given the risk taken by Treasury.

To further diversify funding sources, for the first time ANB has tapped the capital markets to raise medium term financing. This was well received and over-subscribed by regional and international investors.

ANB continues to be a major contributor to the development of the local inter-bank market, where we play a key role in both on and off balance sheet market-making activities. Additionally, we are actively contributing to the formation of primary dealership in government bond activities.

Our commitment to building a sophisticated platform for financial products and services has enabled us to offer a wide range of solutions to customers. This, in turn, has translated into greater confidence and reliance on ANB's structuring capabilities and resulted in winning transactions that have exceeded client expectations. All these developments have contributed to the overall growth of Treasury business.

Going forward, the country's strong economy, coupled with developments in the capital markets, gives us an opportunity to further expand activities into broader areas of the market. We will provide the latest financial engineering solutions to our customers, ensuring the most efficient allocation of resources to help them manage their exposures in the financial markets.

The Bank will also channel its efforts into delivering innovative business opportunities - such as exploring new markets and capturing their potential benefits.

## Internet area

Internet Area continued to develop the e-services infrastructure by introducing new services that meet the Bank's goals of assuring the best service to the customer and securing solid earning growth. During 2005, the Internet service added value in several business areas, for example:

**alarabi-ebusiness+**, an Internet corporate cash management solution, was introduced to replace the old Internet corporate banking service with features such as online payments, payroll and liquidity management.

**Tadawul-alarabi** is an online local shares trading system that recognises the huge potential and boom in the local shares trading market. It was introduced this year and is already attracting a large customer base and considerable business.

**alarabi-IPO (Initial Public Offering)** is an easy-to-use on-line subscription system to the various IPO's.

**Interactive SMS (iSMS)** extends alarabi-mobile services with on-demand enquiry services such as balances, credit card limits, utility bills and fund price enquiries.

**TeleMoney Exchange** is an online system that allows the exchange of TeleMoney payments and advices with correspondents securely over the very cost effective Internet channel, thus reducing the high cost incurred by the old channel.

**Online customer care** includes various modules such as online loan requests, credit card requests and complaint and customer feedback forms.

We are very committed to exploring the best opportunities for ANB in the e-world to maintain our place as leaders in this field and our pursuit of excellence will continue.

The Bank provided a SAR 500 million receivables securitisation facility to the Abdullatif Jameel group of companies, which holds the Toyota dealership in the Kingdom.

ANB's Treasury Group continued to grow across all business areas, resulting in strong performance, and improved returns without compromising on the risk taken in managing market exposures.



### Information Technology

Through our information technology (IT) section, we continue to develop the technical infrastructure and capabilities which enable us to provide excellent customer services. We have increased our IT capacity to meet the enormous demand for Tadawul and consumer loans, and to improve their performance.

Our pension payment application has been replaced, enabling customers to benefit from modern technology and the extended features of the new system. A new loans system is also extending our capabilities in selling and managing consumer loans. The treasury dealing application was upgraded in preparation for the launch of new treasury products. Our Internet services for corporate and individual clients have been expanded further, with new systems to give corporate customers competitive facilities to manage their account balances and letters of credit. Now Saudi share traders can see prices and deal online and investors can apply for IPO offerings through phone banking as well as in branches.

A project to replace the core banking system is well underway. This will provide a system that better meets current and future business requirements, has greater flexibility to deploy new products and services and performs faster in support of the future growth of the Bank for at least the next decade.

### Credit and Risk Management

**Credit Group** is an integral part of the Credit and Risk Management Group, responsible for assessing and reviewing credit risk and delivering credit services to clients. The Group, with its team of highly skilled and experienced credit officers, plays a pivotal role in the long-term profitable growth of the Bank by observing the best risk management practices. It continuously reviews and develops the Bank's procedures and systems to further enhance efficiency and quality and plays an important role in helping the Bank adapt to regulatory changes.

**Risk Management Group** has the overall task of developing and implementing risk-based policies and practices. The Group is further divided into these key risk functional areas:

**Credit Risk** involves the failure of a counter party or customer to meet their financial or contractual obligations in a timely

manner, which is a major source of losses for banks. The credit risk department is responsible for putting in place policies and controls to minimise these losses. It also monitors the Bank's overall portfolio for excessive concentrations and ensures that profits and returns are consistent with the risks being taken.

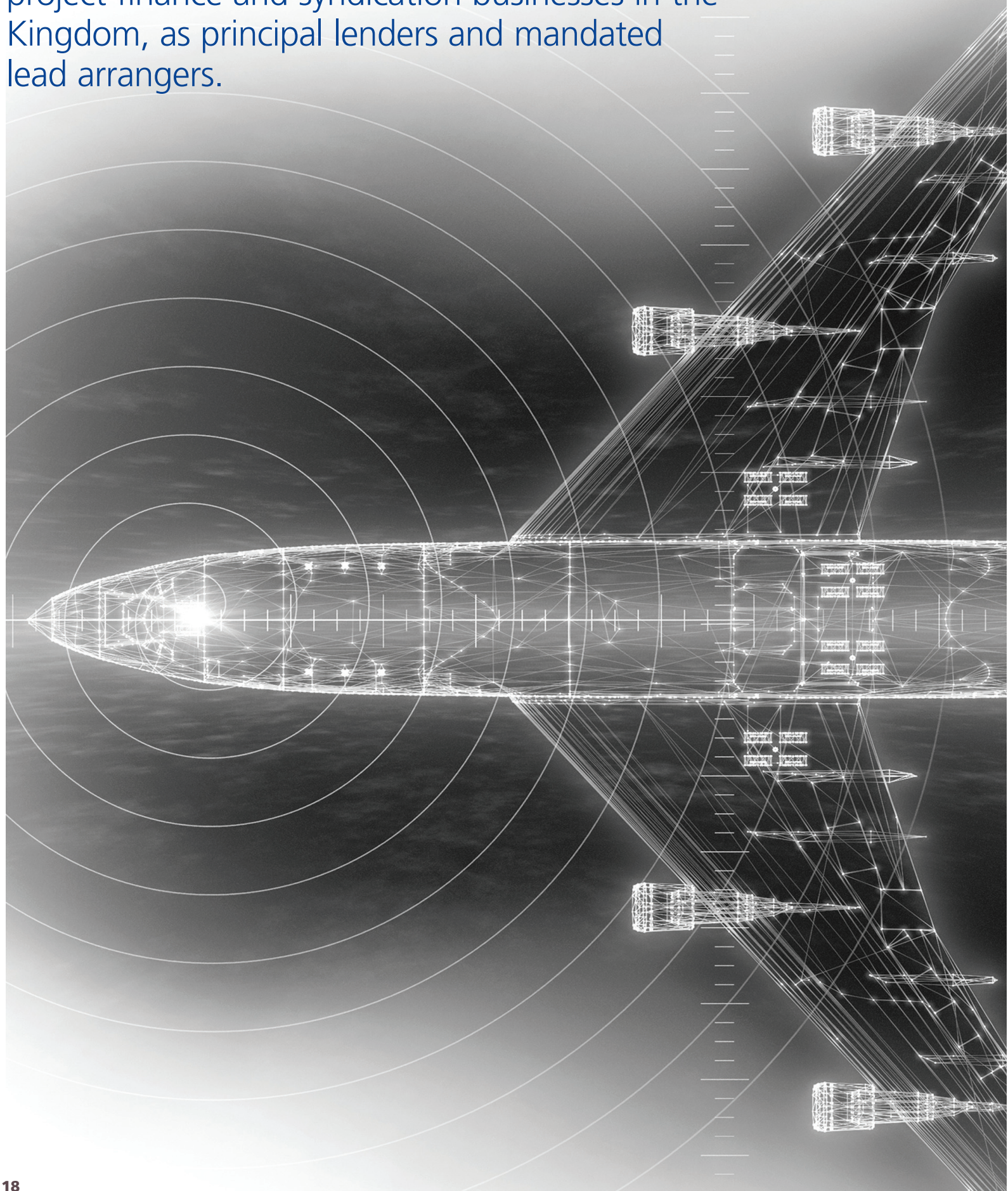
**Market Risk** arises when there are adverse changes in the value of the portfolio due to volatile risk factors such as interest rates, foreign exchange, commodities and equities.

**Market Risk Management** monitors ANB's liquidity. This includes funding the Bank's risk as an essential part of maintaining both customers' confidence and stability in earnings. Careful management also enables the Assets and Liability Committee to take prudent balance sheet structuring decisions. Market Risk Management has adopted value at risk methodology based limits and is in the process of implementing financial risk management systems. These initiatives will enable ANB to adopt best risk management practices which are fully compliant with Basel II requirements.

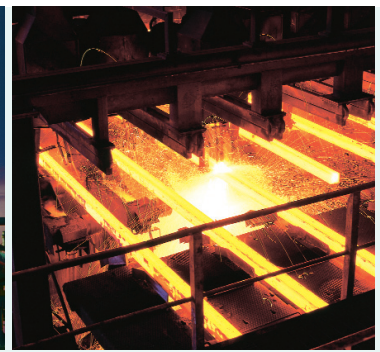
**Operational Risk** is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational Risk Management continues to enhance the operational risk culture by applying the most advanced management techniques. This enables ANB to identify, measure and control risks, and to contain expected losses and to minimise unexpected losses.



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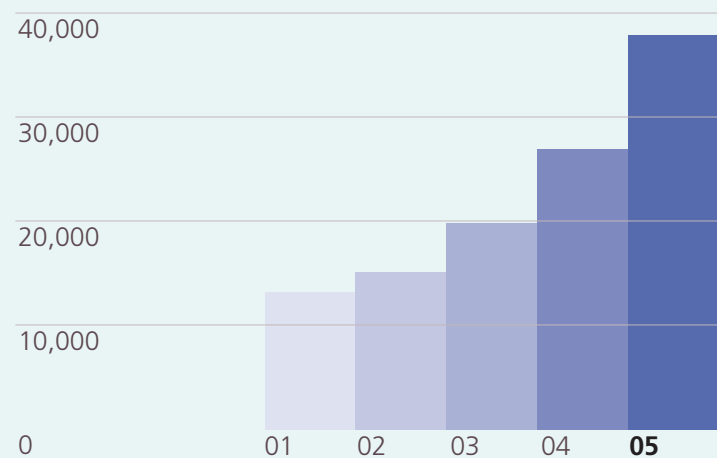




We led a consortium of local banks to provide a 12 year, SAR 1,800 million financing arrangement to Saudi Arabian Airlines to upgrade their fleet.

Loans and Advances, net

**SAR 38,779mn**





Our major source of talent is through developing existing staff members and promoting them into positions of greater responsibility. Maintaining our drive to support the Saudisation process, Saudi personnel now make up a record 89% of all ANB staff.

### Compliance and Anti Money Laundering control

ANB has taken steps to reinforce good Corporate Governance and Compliance in the Bank so that its compliance programmes reach across business lines and products. This has been achieved purely through comprehensive compliance manuals and awareness programmes. We have started to review the processes for developing, designing, implementing, overseeing and evaluating compliance risk, an exercise which will result in enhanced regulatory compliance.

There are important business drivers which encourage banks to meet their corporate responsibilities - including good brand and reputation, maintaining the trust of customers and financial markets and increasing shareholders' value.

An effective compliance policy and code of ethical behaviour has been implemented, to promote the values of honesty and integrity throughout the organisation. ANB's compliance with applicable laws, rules and standards is reviewed as an essential means to this end. As is the case with other categories of risk, we ensure that an appropriate policy is in place to manage ANB's compliance risk, and ensure that compliance issues are resolved effectively and expeditiously by senior management with the assistance of the compliance function.

ANB is launching enhanced financial crime and compliance software programmes and compliance e-learning to further tighten its regulatory compliance and money laundering risk management. This software offers transaction monitoring and real-time sanctions filtering to detect, analyse and report suspicious and criminal activities.

### Human Resources and Training

The focus of Human Resources is to ensure that highly qualified people are in place to support ANB's significant business growth in all areas of its operations. Our major source of talent is through developing existing staff members and promoting them into positions of greater responsibility. To support this initiative, we have an ongoing formal career development programme, with accelerated development for staff targeted for specific positions.

We have also recruited significant numbers of young Saudi graduates from reputable schools and universities. For these individuals, ANB is their first full-time job. They attend comprehensive training programmes tailored to give them the knowledge and skills they will need. Understanding our customers and delivering quality service are common themes in all of these programmes.



Maintaining our drive to support the Saudisation process, Saudi personnel now make up a record 89% of all ANB staff.

We are committed to providing rewarding banking careers for all staff members throughout the Bank. ANB encourage and create opportunities for staff to gain broad experience by working in various areas of the Bank, and staff members are routinely challenged with additional responsibilities. This steady emphasis on development prepares the Bank to meet the needs and expectations of our growing customer base.

### London Branch

London Branch is ANB's sole overseas operation. Now in its fifteenth year of business, the Branch has a key role in supporting the international business interests of our Saudi Arabian clients and their counterparts across Europe. The Branch's small team of dedicated staff has a breadth of experience ranging from personal banking to trade services, corporate banking and treasury. They all work in a coordinated way to provide customers with a high quality level of service and tailor-made solutions to their financial issues, with the professional attention that is expected of a bank operating in a global international financial centre.

The Branch is continuing to align its customer strategy and systems to be fully compatible with ANB's domestic branch network and divisions, recognising the role it plays in facilitating dealings between clients in the Kingdom and Europe at large.

### Serving the community

As a responsible member of the corporate community, ANB does not neglect its obligations and responsibilities in the widest possible sense. We continue to play an active role in the community and support a number of social and philanthropic programmes, which include the Disabled Children's Association to which we have donated more than SAR 23 million over the years.

### Conclusion

Arab National Bank starts 2006 in an exceptionally strong position, from where it can capitalise on the advances made over the last twelve months.

This is not just a result of our benefiting from a very favourable economic climate. Much of our success is due to our commitment to taking a 360-degree view of our business, ensuring that each part of it is working well, keeping pace with change and meeting our customers' requirements.

For all these reasons, ANB and its customers can look forward to a very positive future in the year ahead.