

Arab National Bank
Annual Report 2011



ANB offers a full range of commercial and Islamic products and services to the retail and corporate sectors, including foreign exchange, treasury and investment services. The Bank's wholly owned subsidiary (ANB Invest) offers financial advisory, investment, wealth, mutual funds and asset management and local and international equity trading services.

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King Abdullah Bin Abdul Aziz Al Saud
The Custodian of the Two Holy Mosques



His Royal Highness Prince Naif Bin Abdul Aziz Al Saud
Second Deputy Premier and Interior Minister

Chairman's Message



Salah R. Al-Rashed
Chairman

It gives me great pleasure to present the annual report and closing accounts of Arab National Bank for the year ended December 31, 2011.

The Saudi Arabian economy benefited in 2011 from a favourable environment, largely underpinned by government spending, particularly on development and infrastructure projects. This reflected positively on the financial sector, which has strived to meet the growing demand for credit at both the corporate and consumer levels. In parallel, banks, including ANB, continued to strengthen their balance sheets and build up their capabilities so as to support the anticipated growth in business activity.

Arab National Bank delivered a very good performance in 2011, with net income growing by 13.6% to reach SR 2.171 billion in 2011, compared with SR 1.911 billion in the previous year. Total assets and customer deposits reached SR 117.6 billion and SR 87.9 billion, respectively, by the end of 2011.

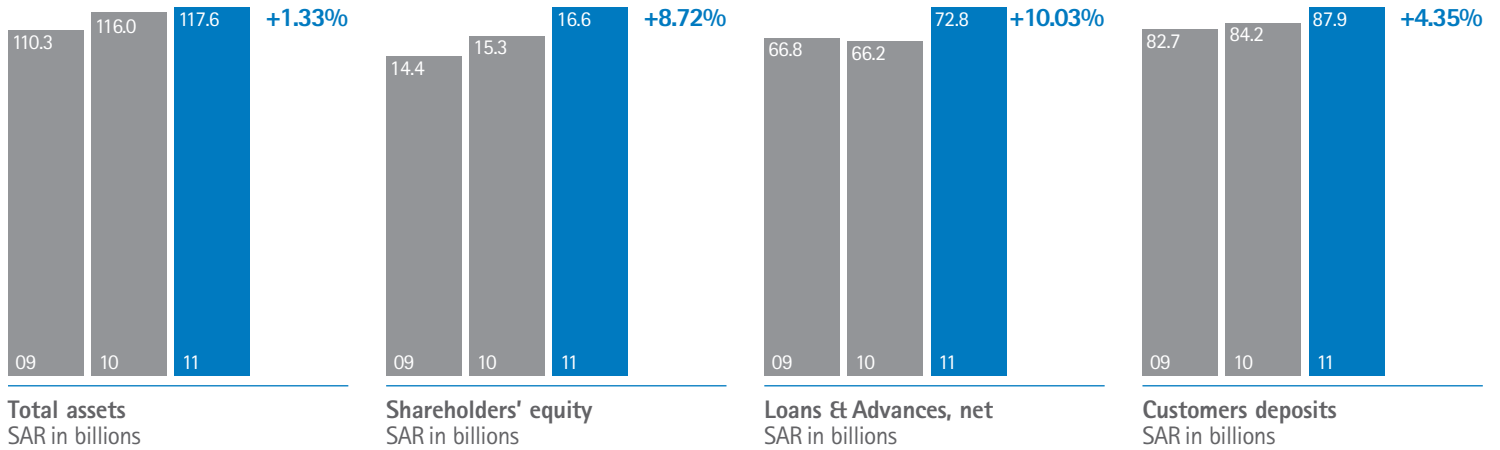
We firmly believe that the expansionary fiscal policy pursued by the Government on the one hand, and the robust fundamentals of the Saudi economy on the other, allow us to look forward with confidence and optimism to the general business prospects in 2012.

On behalf of the Board of Directors and myself, I want to express my gratitude for the support and wise guidance of the Custodian of The Two Holy Mosques, the Crown Prince, the Minister of Finance and the Governor of the Saudi Arabian Monetary Agency. Finally, I wish to acknowledge the support and trust of our valued customers, and to extend my warm appreciation and thanks to the management and staff for what has again been an outstanding performance. I wish them every success in the years ahead.

A handwritten signature in black ink, appearing to be 'Salah R. Al-Rashed'.

Salah R. Al-Rashed
Chairman

Financial Highlights



	Saudi Riyals in Millions				
	2011	2010	2009	2008	2007
Net Commission Income	3,181	3,158	3,456	3,354	2,904
Net Income before provisions for credit losses	2,789	2,875	2,897	2,546	2,528
Net Income	2,171	1,911	2,370	2,486	2,461
Expense to Revenue Ratio	39.4%	38.6%	36%	35%	36%
Return on Assets (ROA)	1.9%	1.7%	2.0%	2.3%	2.9%
Return on Equity (ROE)	13.6%	12.9%	17.5%	21.4%	26.6%
Investments	26,082	32,841	23,261	28,228	21,025
Loans and Advances, net	72,844	66,203	66,811	74,662	61,122
Total Assets	117,574	116,035	110,297	121,307	94,468
Customers Deposits	87,859	84,199	82,680	92,743	73,692
Total Equity	16,624	15,291	14,369	12,671	10,525

A

Standard & Poor's

A¹

Moody's

A

Fitch Ratings

A⁺

Capital Intelligence

Directors' Report

To: The Shareholders of Arab National Bank

The Board of Directors is pleased to submit the Annual Report of the Arab National Bank for the financial year ended December 31, 2011 to the shareholders.

Introduction

Arab National Bank, a Saudi Joint Stock Company (the Bank), was incorporated in 1980 pursuant to Royal Decree No. R/38 dated Rajab 18, 1399H (June 13, 1979). The Bank's Head Office is located in Riyadh and operates through 142 branches in the Kingdom of Saudi Arabia 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 year amounted to SAR 2,171 million compared to SAR 1,911 million for 2010, an increase of 13.6%. Total revenues reached SAR 4,541 million compared to SAR 4,504 million last year. Special commission income reached SAR 3,181 million in 2011 compared to SAR 3,158 million in 2010, while fees and commission income went up by 33% to reach SAR 727 million compared to SAR 545 million in the previous year.

Operating expenses (excluding provisions) reached SAR 1,775 million compared to SAR 1,644 million in 2010, representing an increase of 7.9%, as a result of growth in business activities, continued transformation and expansion of branch network, upgrade in IT infrastructure, and the effect of two basic salaries bonus in response to the initiative of the Custodian of the Two Holy Mosques to offer two basic salaries bonus to all government employees, an initiative which was widely embraced by the private sector.

In line with the Bank's conservative risk management policy, provision for credit losses reached SAR 618 million compared to SAR 964 million in 2010, hence, non-performing loans coverage went up to 146% compared to 108% last year.

The loans portfolio grew by 10% to reach SAR 72,844 million compared to SAR 66,203 million in 2010, while the investments portfolio reached SAR 26,082 million.

Customer deposits increased by 4.3% to reach SAR 87,859 million compared to SAR 84,199 million in 2010, while total assets reached SAR 117,574 million at the end of 2011.

Total equity went up by 8.7% to SAR 16,624 million compared to SAR 15,291 million at the end of 2010.

Financial Highlights

	SAR millions				
	2011	2010	2009	2008	2007
Loans and advances, net	72,844	66,203	66,811	74,662	61,122
Investments, net	26,082	32,841	23,261	28,228	21,025
Customers deposits	87,859	84,199	82,680	92,743	73,692
Shareholders' Equity	16,624	15,291	14,369	12,671	10,525
Total assets	117,574	116,035	110,297	121,307	94,468
Total liabilities	100,845	100,638	95,819	108,636	83,943
Total operating income	4,541	4,504	4,493	4,135	3,956
Total operating expenses	2,393	2,609	2,128	1,642	1,495
Net Income	2,171	1,911	2,370	2,486	2,461

Geographical Analysis of Revenues

Almost all of the Bank's revenues are achieved through its activities in the Kingdom of Saudi Arabia and distributed as follows:

	SAR '000
Central Region*	2,671,946
Western Region	1,125,003
Eastern Region	744,513
Total	4,541,462

* Including London branch revenues (not significant to disclose separately).

Affiliates and Associates

Arab National Bank Investment Company (ANBI)

The Bank has established a wholly owned subsidiary (directly and indirectly) "ANB Invest", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on 26 Shawal 1428 (corresponding to November 7, 2007), to takeover and 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. The subsidiary's authorized and issued capital is SAR 400 million, and it commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008).

Arabian Heavy Equipment Leasing Company

A 62.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration No. 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (May 10, 2009). The company's authorized capital is SAR 1,000 million and its issued capital is SAR 300 million. The company is engaged in leasing of heavy equipments and operating in compliance with Shariah principals.

Board of Directors



Back Row: Nader Hassan Al Amri / Ahmed A. Al-Akeil / Robert Eid, Managing Director / Abdel Hamid A. Shoman / Hesham Abdulatif Al-Jabbar
Front Row: Mohammed A. Alghanamah / Khaled M. Albawardi / Salah R. Al-Rashed, Chairman / Rashid Saad Al-Rashid / Neme Sabbagh

Shareholders

Saudi Shareholders 60%
Arab Bank Plc 40%

Executive Committee

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

Nomination & Compensation Committee

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

Audit Committee

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

Directors' Report (continued)

Saudi Home Loan Company (SHL)

A 40% owned associate incorporated in the Kingdom of Saudi Arabi, as a Saudi closed joint stock company under the commercial registration No. 102030072425. The company's authorized capital is SAR 2,000 million and its issued capital is SAR 800 million. SHL is specialized Islamic home and real estate finance company, as all its products and services are fully Sharia compliant. The company commenced its business in the last quarter of 2007 and is accounted for under the equity method.

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

Dividend Distribution Policy

Following are the rules governing the Bank's dividend distribution:

- 1- In accordance with the requirements of the Saudi Arabian Monetary Agency, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve, and such transfer may discontinue when this reserve equals the paid up capital of the Bank.
- 2- The Board of Directors periodically reviews and analyzes the Bank's financial position, capital adequacy and its growth projections. Accordingly, the Board proposes to the Extraordinary General Assembly whether to distribute dividend or not.
- 3- If the Bank decides to distribute dividend, such dividend will be distributed equally among shareholders in proportion to their shares held, and the eligibility date of dividend is announced.
- 4- The Board of Directors may decide to distribute interim dividend based on the Bank's financial position.
- 5- Non-distributed earnings are transferred to the next year or to the general reserve.

The Board of Directors proposed dividend distribution as follows:

	SAR '000
2011 net income	2,171,123
Retained earnings from previous years	705,637
Total	2,876,760

Distributed as follows:

Transferred to statutory reserve	550,000
Zakat (including last year difference)	410,320
Dividend distribution (SAR 1 per share)	850,000
Retained earnings for 2011	1,066,440

During 2011, the Bank's capital was increased to SAR 8,500 million by granting 4 bonus shares to every 13 shares held, through transfer of SAR 2,000 million from the retained earnings after approval of the General Assembly in its meeting held on 27/3/2011.

Future Plans

The Bank is executing a number of future plans and strategic initiatives as follows:

- Continuing branch network expansion and transformation
- Incorporate an insurance company
- Continuing upgrade of the Bank's information and communication systems that includes new systems in management information, credit and operational risk management.

Principal activities

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission risks.

Investment and brokerage services

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Other

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

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance. The Bank'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 Bank's overall consolidated financial statements.

The Bank's total assets and liabilities as at December 31, 2011, its total operating income, expenses and net income for the year then ended, by business segment, are as follows:

						SAR' 000
2011	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	Total
Total assets	27,720,931	49,270,375	37,583,567	31,414	2,968,018	117,574,305
Total liabilities	46,047,493	43,775,015	10,242,759	33,402	746,111	100,844,780
Total operating income	2,194,068	1,429,297	417,211	127,039	373,847	4,541,462
Total operating expenses	1,382,765	819,862	77,259	83,363	29,706	2,392,955
Share in earnings of an associate	-	-	-	-	22,168	22,168
Loss attributed to non-controlling interest	-	-	-	-	448	448
Net income attributable to equity holders of the Bank	811,303	609,435	339,952	43,676	366,757	2,171,123
Provision for credit losses, net	163,190	454,707	-	-	-	617,897
Investment in an associate	-	-	-	-	349,417	349,417
Depreciation and amortization	168,503	3,459	4,214	9,573	1,991	187,740
Impairment of financial assets	-	-	-	-	10,478	10,478

Risks encountered or may be encountered by the Bank

Risk Management

ANB's Risk Management Group (RMG) provides an independent and centralized risk management function, to ensure that the best balance between risk and return is achieved, in line with the bank's strategic objectives. The major risks that may be encountered by the Bank include mainly the following:

a) Credit risk

Credit exposures arise principally from lending activities that relate 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 the 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 process, people and systems or external events. Operational risk includes legal risks such as exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Corporate Governance in the Kingdom of Saudi Arabia

The Bank implements most of the Corporate Governance Guidelines issued by the Capital Market Authority in the Kingdom of Saudi Arabia, except:

Article	Procedure	Reasons
Six	Voting on selection of Board members in the General Assembly should be through accumulative voting method.	The Bank's Articles of Association will be amended to include the accumulative voting method and pass it to the Extra Ordinary General Assembly for approval before the end of the current board term.

Term loan and debt securities in issue

During 2006, the Bank has issued USD 500 million of 10-year subordinated floating rate notes under its USD 850 million Euro Medium Term Notes program. The notes carry a special commission rate of Libor plus 83 bps. The notes are non-convertible, unsecured and listed on the London stock exchange. These notes are callable after 5 years from issuance. Effective October 31, 2011 and based on the step-up condition, the commission rate has been adjusted to Libor plus 133 bps.

During 2009, USD 50 million was purchased from secondary market and retired.

Directors' Report (continued)

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 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 Assembly Meeting for a term of three years. The remaining four members are appointed by Arab Bank PLC. All directors may be reappointed.

The Board of Directors has a clearly documented schedule and agenda of key issues, which includes the agreement of strategies budgets, 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 maintained by the Company Secretary. They may also opt for 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 risks, which are documented in the Bank's high level controls framework and are annually reviewed by the Board of Directors.

Board members at December 31, 2011 appointed by Arab Bank are Abdel Hamid A. Shoman, Neme Sabbagh, Mohammed A. Alghanamah and Dr. Robert Eid (Managing Director).

The Board of Directors as at December 31, 2011 composed of the following:

S	Name	Position
1-	Salah Rashed Al-Rashed	Chairman of the Board (independent)
2-	Dr. Robert Eid	Board member (executive)
3-	Rashid Saad Al-Rashid	Board member (independent)
4-	Ahmed Abdullah Al-Akeil	Board member (independent)
5-	Khaled M. Saad Albawardi	Board member (independent)
6-	Hesham A. Aljabr	Board member (independent)
7-	Nadir Hassan Alamri	Board member (non-executive)
8-	Abdel Hamid A. Shoman	Board member (non-executive)
9-	Neme Sabbagh	Board member (non-executive)
10-	Mohammed A. Alghanamah	Board member (non-executive)

Four regular Board meetings were held during 2011. Below is the attendance record:

Date	Attendance record	Number of attendees
March 27, 2011	Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Mohammed A. Alghanamah and Ghassan Tarazi.	9
June 19, 2011	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Neme Sabbagh and Mohammed A. Alghanamah.	9
September 18, 2011	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Neme Sabbagh and Mohammed A. Alghanamah.	9
December 18, 2011	Salah Rashed Al-Rashed, Robert Eid, Rashid Saad Al-Rashid, Ahmed Abdullah Al-Akeil, Khaled M. Saad Albawardi, Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri, Neme Sabbagh and Mohammed A. Alghanamah.	9

Membership of Abdullatif Hamad Al-Jabr, Abdullah Ibraheem Silsilah and Ghassan Tarazi ended at 31/3/2011, and membership of Hesham Aldullatif Al-Jabr, Nadir Hassan Alamri and Neme Sabbagh started at 1/4/2011.

Directors' membership in other joint stock companies' Boards

Following is a list of Directors who are board members in other joint stock companies:

Director	Joint stock company
Salah Rashed Al-Rashed	- Arriyadh Cement Co. - White Cement Company - Alyamama Investment & Installment - Tech Invest Co.
Rashid Saad Al-Rashid	- Bayan Realty Co. - Watan Investment - Al-Ahsa Amusement & Tourism Co. (AHSANA)
Ahmed Abdullah Al-Akiel	- Southern Province Cement Co. - Sanad Cooperative Insurance Co. - Aldrees for Petroleum Services and Transportation - Alyamama Investment & Installment
Khaled M. Saad Albawardi	- Arab Paper Manufacturing Co. - Basic Chemical Industries Co. (BCI)
Hesham Abdullatif Al-Jabr	- Advance Electronic Equipment Company - Nattily Company for Furniture and Internal Design
Abdel Hamid A. Shoman	- Arab Bank PLC - Arab Bank Europe Ltd. - Arab Bank (Switzerland) Ltd. - Oman Arab Bank
Robert Eid	- Saudi Home Loan Company (SHL)

Principal Board Committees

The Board formed a number of committees, each with specific terms of reference, comprises board members and senior executives.

Executive Committee

The Executive Committee is composed 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 by the Board of Directors. During 2011, the executive committee held 19 meetings. This Committee is responsible for implementing Bank's policy, monitoring business performance, managing risks and ensuring the effectiveness of internal controls, approving sizable capital expenditure.

During 2011 the executive committee comprised Dr. Robert Eid (chairman), Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akiel, Khaled M. Saad Albawardi and Mohammed A. Alghanamah .

Nomination and Compensation Committee

During 2010, Nomination and Compensation Committee was formed, comprises of three non-executive members of the Board ; Khaled M. Saad Albawardi (Chairman) , Salah Rashed Al-Rashed and Ahmed Abdullah Al-Akiel. The committee has the authority to review and amend ANB's compensation policy and practices and recommend the same to the Board for its approval. The committee also reviews the level and composition of remuneration of key executives of the Bank, and recommend risk- adjusted bonus pool to the Board for approval. The committee functions also include nomination to Board membership, review the Board structure and determine strengths and weaknesses therein and propose remedy in line with the Bank's interests. The committee held 6 meetings in 2011.

On its meeting held at 27/3/2011, the Extra Ordinary General Assembly endorsed the selection rules of the Nomination and Remuneration Committee members, duration of membership, the Committee's method of work and the remuneration of the Committee's members as advised by the Board of Directors.

Annual remunerations and compensations to non-executive Board members amounted to 2,280 thousand Riyals and 240 thousand Riyals for executive members, and allowances to non-executive Board members amounted to 309 thousand Riyals and 69 thousand Riyals for executive members. Compensations to non-executive Board members amounted to 479 thousand Riyals including travel and accommodation expenses. Salaries to senior executives including CEO and CFO amounted to 17,248 thousand Riyals while their allowances and compensations reached 2,954 thousand Riyals and their variable compensation reached 15,445 thousand Riyals while their incentive plans reached 1,450 thousand Riyals. Remunerations to the audit committee amounted to 270 thousand Riyals and their attendance allowances reached 48 thousand Riyals.

Audit Committee

The Audit Committee assists the Board of Directors in reviewing the effectiveness of the internal control system and for approving the Bank's accounting policies and financial statements. The Audit Committee also considers the plans and findings of the Internal Audit Division, assesses its work results and ensures availability of control systems that secure proper implementation of the Bank's procedures. It provides a direct channel between the external auditors and the Board, ensures the external audit is conducted in a thorough and effective manner and that the reports by the external auditors are properly actioned. The Committee recommends the appointment of external auditors and reviews their plans and work results. The Bank complies with the Rules and Guidelines for Banks in Saudi Arabia for Organizing Audit Committees issued by the Saudi Arabian Monetary Agency.

The Committee is comprised of an independent board member and two independent non-executive directors. The Committee met six times during 2011. The committee meets regularly with the Managing Director, the Chief Financial Officer, the Head of Internal Audit, and other members of the management team as may be required for discussions and deliberations.

During 2011, the Audit Committee comprised Ahmed Abdullah Al-Akiel (Chairman), Mr. Saleh A. Al- Ismail and Mr. Mohammed A. Alomran.

Directors' Report

(continued)

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 effective and efficient operations, safeguarding assets against unauthorized use or disposition, maintaining proper accounting records, reliable financial information used within the business or for publications, compliance with applicable laws and regulations and for monitoring internal policies in relation to business performance. The systems in place were designed to manage, rather than to eliminate the risks of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses or fraud.

During its normal course of business, the Bank is exposed to credit, market and operational risks. However, various committees and procedures are in place to identify, measure, control and mitigate such risks.

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. Additionally, 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"), Market Risk Policy Committee (MRPC) and the Bank Senior 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.

Results of the Review of Internal Control Procedures Effectiveness

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. Following the Audit Committee review of the Bank's internal control procedure reports, most important of which is the Internal Audit reports, Risk Management Group's reports and the Internal Auditor's report for 2011, and after meetings with the heads of these parties discussing contents of the reports and performance of their sectors, the Committee conveys its conviction that the Bank's internal control cycle reflects the effectiveness of the internal control procedures in the Bank, and that it is in continued development to meet the increasing business needs and developments.

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. There is a regular dialogue with institutional investors. Inquiries from individuals on matters relating to their shareholdings and the Bank's business are welcomed and are handled in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Bank.

Credit Rating

During 2011, the Bank was able to maintain its strong credit rating granted by prominent international credit rating agencies. The Bank's rating was as follows:

Standard & poor's	A
Moody's	A1
Fitch Ratings	A
Capital Intelligence	A+

Interests of Board Members, Senior Executives, their wives and minor children (shares in thousands)

Major Shareholders

Name	At beginning of year 01/01/11		Change During the year		At end of year 31/12/11	
	No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
Arab Bank PLC	260,000	40.00	80,000	30.77	340,000	40.00
General Organization for Social Insurance (GOSI)	70,241	10.81	21,613	30.77	91,854	10.81
Rashed Abdul Rahman						
Al-Rashed and Sons Co.	64,796	9.97	19,937	30.77	84,733	9.97
Al-Jabr Trading Company	36,752	5.65	11,309	30.77	48,061	5.65

Board Members, Senior Executives, their wives and minor children

Name	At beginning of year 01/01/11		Change During the year		At end of year 31/12/11	
	No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
Salah Rashed Al-Rashed	2,6	0.00	0,8	30.77	3,4	0.00
Rashid Saad Al-Rashid	7,641	1.18	2,351	30.77	9,992	1.18
Ahmed Abdullah Al-Akeil	152,4	0.02	46,9	30.77	199,3	0.02
Khaled M. Saad Albawardi	21,7	0.00	6,6	30.77	28,3	0.00
Hesham Abdullatif Al-Jabr	3,5	0.00	1,1	30.77	4,6	0.00
Nadir Hassan Alamri*	-	-	-	-	-	-
Abdel Hamid A. Shoman**	-	-	-	-	-	-
Nemeh Sabbagh**	-	-	-	-	-	-
Mohammed A. Alghanamah**	-	-	-	-	-	-
Robert Eid**	-	-	-	-	-	-
Asad Abdullah Hashem Al Sadah	9,7	0.00	3,1	30.77	12,8	0.00

Note: Board members' shares include wives and minor children.

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

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

Statutory Payments

	SAR in Millions
Zakat attributable to Saudi shareholders	246
Income tax payable by the non Saudi shareholders	186
Withholding tax	27
General Organization of Social Insurance	41

Penalties and Regulatory Restrictions

The Bank was not subject to any material penalty or fine During 2011.

The penalties charged during 2011 were operating in nature and have no significant impact on the Bank. Below are the details of the penalties:

	SAR in Thousands
Saudi Arabian Monetary Agency	2,386
Capital Market Authority	180
Riyadh Municipality	740

Human Resources

Total number of staff at the end of 2011 was 3,923 compared to 3,495 at the end of 2010. The Saudization ratio at the end of 2011 reached 91%.

Donations and Social Responsibilities

As dedicated, 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 its assistance to charitable, educational, and other social institutions, where the bank granted donations totaling SAR 2,7 million during 2011.

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. Note (36) in the financial statements regarding related parties transactions shows amounts of facilities granted to some of the Board members. These facilities are governed by SAMA's instructions which stipulate that all facilities granted to non-banking parties should be fully guaranteed.

Accounting Standards

The Bank follows the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

External Auditors

In its meeting held on March 27, 2011, 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 2011.

Statement of Directors' Responsibilities in Relation to Financial Statements

The Board of Directors, 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
- 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 associate is or was having any material interest except what is disclosed in note (36) regarding related party transactions.

Board of Directors

13 February 2012

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

Against the backdrop of heightened global uncertainties, the Saudi market continued to benefit from strong fundamentals. In 2011, the banking industry enjoyed a benign environment which saw a welcome boost to the demand for credit.

In this context, ANB balance sheet and loan book grew to SAR 117.6 billion and SAR 72.8 billion respectively, up by 1.3% and by 10% on last year. Net income reached SAR 2.2 billion in 2011, up 13.6% compared to last year.

Retail Banking

ANB maintained its focus on sustained growth and improved services. The greater attention given to enhancing the bank's overall customer service levels has led to an improvement at the various customer touch points. The Call Center is handling increased volumes and is consistently achieving their key service level standards. ANB's ATM network has incorporated an overarching "Command Center" management approach which has improved the performance from both the ATM and CIT service providers which, in turn, is keeping our ATM network at the highest operating levels. Additionally, to assure that high levels of quality are sustained throughout all areas of Retail Banking, Mystery Shopping exercises are conducted on a regular basis.

Customer retention was a priority during the year. ANB focused its efforts on greater cross-selling, which deepened and strengthened the relationships it has with its existing customers. By using the bank's extensive branch network, combined with the efforts of the outbound telesales team, ANB was able to acquire new customers and increase sales in an extremely cost effective manner.

Customer segmentation became more granular and ANB's continuous development of product bundling ensured that we were selling the right products to the right customers throughout their financial services life-cycle. ANB's distribution network continued to grow in 2011 with the following new additions:

- three new men's branches
- nine new TeleMoney centres
- four new ladies' sections
- 30 new ATMs

Corporate Banking

Despite the challenging financial environment, ANB continued to earn the trust and confidence of its corporate clients, which enabled it to perform solidly during the year. Its consistent emphasis on execution and on supporting its clients has allowed ANB to grow its business and overcome external challenges.

ANB continues to pursue a balanced approach to writing new business and to fostering high quality, long-term relationships with clients. This approach ensures that the Bank continues to provide ongoing support for infrastructure development projects in the Kingdom and is able to encourage the growth plans of its clients. Maintaining the strength and diversity of its corporate portfolio and managing risk prudently also continued to be central to the Bank's business model.

Committed to being a partner to its clients, ANB Corporate Bank strives to anticipate the needs of its clients and provide the solutions they need and want. At the same time, it continues to optimize returns from clients by increasing the depth and breadth of its products and service offerings in the areas of cash management, trade finance, foreign exchange, Islamic banking, and project and structured finance.

International Contracting

The International Contracting function, part of the Corporate Banking Group, was created in 2007. It delivers corporate banking products and services, as well as project-related financing facilities, to multi-national contractors executing projects in KSA. With an array of clients spanning Europe, the Far East, and North America, International Contracting has teamed up with its global affiliate, Arab Bank plc, to provide a seamless flow of business to and from KSA.

Commercial Banking

ANB continues to hold a strong and profitable mid-market franchise. Its portfolio is characterized by a strong base with excellent credit quality. The segment sustained its business momentum, despite the challenging environment, and continued to achieve strong results. Its focus has been on strengthening existing relationships and expanding the mid-size and small business customers through concentrated marketing efforts and the diversification of its range of banking products and services offerings.

The unit actively supports small businesses operating in the Kingdom with dedicated and specialized teams in each region. It has been an active player in working to extend facilities under the 'Kafala' scheme that SIDF introduced and which SAMA supports. The unit is well positioned to seize the opportunities offered in this expanding market segment.

Islamic Banking

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

Product development: Developing Shariaa-compliant products that provide financial solutions to all customer segments. In 2011, a range of finance, investment, and hedging products was successfully developed in accordance with Shariaa guidelines.

Shariaa affairs: Reviewing the activities of business units and affiliates to ensure compliance with Shariaa board guidelines. The Shariaa board reviewed compliance reports and approved a number of new products.

Training: Training more than 362 bank employees in Islamic banking and ANB's Shariaa-compliant products.

Branch conversion: Opening or converting 27 outlets from conventional banking to dedicated Islamic branches. In total, 125 branches, including 31 ladies' sections, representing 69% of ANB's retail branch network, are now dedicated to providing Shariaa-compliant products and services.

Treasury

Following the completion of a solid infrastructure to support cross-selling and client-driven business, Treasury experienced an increase in its customer business in 2011.

Its ongoing conservative asset allocation strategy has paid dividends and insulated ANB from the adverse market conditions that affected major financial centres in 2011.

Treasury's performance in 2011 was the result of a determined focus on cross-selling, successful trading strategies, and prudent asset allocation on its investment portfolio.

London Branch

ANB London performs an important role in supporting the international business interests of the Bank's clientele in the United Kingdom. This branch has continued to offer its UK clients personal banking, corporate facilities, trade finance and treasury services.

2011 has seen a marked increase in residential and commercial property investment in the UK, primarily London. ANB's UK branch is well positioned to support customer requirements in this area.

Strategic Investments

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

Saudi Home Loans (SHL)

Saudi Home Loans performed strongly in 2011. Profitability and the loan book increased significantly despite conservative lending practices. Leading the way in the developing mono-line home finance industry, SHL is well positioned to capitalize on the strong and growing demand for home finance in the Kingdom. The 2012 outlook for SHL is very positive, with continued strong growth anticipated.

ANB/Chartis/MetLife Alico Insurance joint venture

2011 was a year of planning and development for ANB's joint venture initiative, an insurance company which will serve the public in providing general and personal lines insurance products. Metlife and Chartis – the latter being part of the AIG group – are the insurance partners. Through its 100% owned agency (currently under formation), ANB will be distributing insurance products to its customers and the general public soon after the insurance joint venture's planned IPO, which is scheduled to be completed in the second quarter of 2012.

Heavy Equipment Leasing (AHEL)

At AHEL, ANB's crane and heavy equipment leasing subsidiary, 2011 has been a year of organization building and development. The company achieved profitability in its second full year of operations as the use of its crane fleet improved considerably. To take advantage of the demand for equipment in the Saudi Arabian market, the company is considering increasing the size of its fleet during 2012 and 2013.

ANB Invest

The year 2011 was one of the better years since the company's spin-off in early 2008, with improved revenues from brokerage and other activities. Corporate finance revenues contributed to the improvement by earning success fees on a number of mandates. Most significantly, ANB Invest was able to raise SR 351 million for the Al-Mubarak Diyar Jeddah Real Estate Fund in April. Furthermore, Zawya ranked ANB Invest's Al-Arabi Saudi Equity Fund first among all conventional Saudi equity funds for the three-year period ended June 2011. ANB Invest has a strong track record of winning performance awards for its mutual funds. Its Sharia-compliant Al-Mubarak Global Equity Fund received the Lipper awards for its superior performance in 2009 and 2010, and the Al-Mubarak Balanced Fund won the same prize in 2009. The Al-Arabi Saudi Companies Fund (now renamed The Al-Mubarak Saudi Equity Fund) was awarded the Lipper prize in 2007.

Business Review (continued)



Risk Management

ANB's Risk Management Group provides the bank with an independent and centralized risk management function. Its role is to maintain the balance between risk and return, in line with the bank's strategic objectives. The group is also responsible for implementing the Basel Accord's capital adequacy and other requirements. Its activities cover five key areas:

Credit risk

- Establishes lending policies, approval authorization, single-party credit and portfolio concentration limits.
- Regularly assesses and reviews overall portfolio quality.
- Monitors and improves credit risk management techniques in order to implement the Basel II internal rating-based approaches.

Market risk

- Identifies, measures, and monitors market and liquidity risk using a combination of rate sensitivities, gap analysis, value-at-risk, and stress testing.
- Helps to manage the maturity and interest rate risk profile of the bank's balance sheet.
- Ensures that the Bank's market and liquidity risk policy and limits comply with international best practices.
- Enhances market risk management tools and techniques to meet the requirements of the Basel II internal models approach.

Operational risk

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

Business continuity

- Develops business continuity policy and procedures for the bank in line with industry standards.
- Formulates plans to enable the bank to recover its critical operations quickly in the event of disruption to normal business.
- Continuously tests the preparedness and robustness of the Business Continuity Centre through a series of exercises across all bank units.
- Promotes awareness and understanding of business continuity to bank staff.

Credit administration and control

- Authorizes credit disbursement.
- Monitors limits and collateral coverage.
- Prepares and maintains custody of collateral and security documentation.
- Follows up on credit-related irregularities.

Credit Group

The Credit Group is responsible for assessing and reviewing the Bank's credit risk, delivery of credit services to clients, and for observing best risk management practices. It plays a pivotal role in safeguarding the sustainability of long-term, profitable growth by balancing growth in the credit portfolio with excellent credit quality.

Information Technology

Achieving stability within the existing technology environment was the main aim of 2011. In the last two years the bank has introduced new applications and infrastructure components within its environment to meet the business objectives. Ensuring that the environment is integrated and fully functional was one of the key technology challenges for 2011.

ANB implemented the SMS notification for all its customers. The anti-money laundering application was also upgraded to ensure continued compliance with the regulatory framework. New projects were initiated in 2011 in the areas of telemoney, consumer relations, and operations. As a strategic technology direction, the bank is implementing a middleware platform based on service-based architecture.

Human Resources

Human Resources is the main resourcing arm of the Bank. It provides the business generating units with the skilled people it needs to operate effectively. During the year, its persistent efforts to invest in its human capital were rewarded. In an environment that demands mobile banking professionals, Human Resources is dedicated to developing its human capital development through strategic HR initiatives and leadership. In 2011, HR continued to implement its strategic plans for resourcing, acquiring, training, and retaining key skills to ensure that the bank is able to retain its competitive edge in resource and compensation management.

In the recent national Saudization drive programs, the Bank ranked among the top of the private sector companies and financial institutions in Saudization levels, thanks to the Human Resources department's strategic plans set for resourcing, developing skills and retaining staff. As part of its plan, Human Resources continued its annual practice of attracting the best Saudi graduates from top-ranked local and international universities to its renowned Trainees Management and Branch Network New Recruits Orientation Programs.

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