



البنك العربي الوطني
arab national bank

Annual Report 2006

www.anb.com.sa

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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



Chairman's Statement



Abdullatif Hamad Al-Jabr
Chairman

I am pleased to present the Annual Report of Arab National Bank (ANB) for the year ending 31 December 2006

The economic fundamentals of the Saudi economy are stronger and more stable than they have ever been. In 2006 real GDP grew by 5.4% to USD 347 billion, driven by continued increases in oil revenues. This has resulted in further increases in the trade balance, which reached USD 148 billion, while the current account showed a generous surplus for the eighth year in a row, reaching a record 31.9% of GDP.

This performance, now repeated year after year, has built a substantial cushion against any fall in oil prices, while contributing to a general increase in economic capacity. There is no question that this balanced and vigorous growth has also fostered the favourable business environment enjoyed by the banking sector.

Our bank has benefited from these favorable circumstances, increasing its net profit in 2006 by 37% to USD 668 million, compared to USD 487 million in 2005. Meanwhile operating income rose by 23% to USD 1,028 million. These results demonstrate the bank's continued ability to effectively leverage its strong domestic franchise, while maintaining a conservative risk management culture.

The bank aims to find steady growth in both its retail and the corporate sectors. It achieved this with a 15% increase in net interest income to USD 673 million and an increase of 42% in fees from banking services to USD 263 million. Loans and advances grew by 28% to reach USD 13.3 billion, reflecting growing demand in the private sector. Customer deposits increased by 27% to USD 16.5 billion, enabling the bank to maintain a conservative loan-to-deposit ratio. Meanwhile operating expenses were kept well under control, rising by only 3% to USD 360 million compared to USD 350 in 2005.

ANB has taken a key role in the development of the buoyant Saudi real estate sector, developing housing finance as a core growth sector of its business and providing Sharia-compliant financial solutions to its clients in relation to home finance. It is in the process of establishing a housing finance company with the Kingdom Instalment Company, which will endeavor to extract synergies from its extensive retail footprint and consumer expertise.

The newly launched Saudi Stock Internet Trading Service "Tadawul Al Arabi" enables customers to trade local shares over the Internet in an easy and convenient manner.

In 2006, ANB was awarded an "A" rating by Standard & Poors, the highest assigned to any bank in the region, reflecting its strong financial position, robust asset quality, satisfactory liquidity as well as its continued business growth, effective risk management and low levels of non-performing loans.

Our strategy has been to increase the return on shareholders' equity, while enhancing the bank's strong financial position and its competitive edge, and also securing a solid capital base that is fit for its growing business. This was achieved this year with an increase in total assets to USD 20.8 billion, while shareholders' equity reached USD 2.1 billion. The annualised return on equity was 35%. The Board of Directors has recommended an increase to the bank's capital from USD 867 million to USD 1,213 million by offering shareholders two bonus shares for each five shares. The Board also recommended that dividend distribution and allocation be limited to the first half of 2006. USD 173 million has been transferred to the statutory reserve, and a further USD 339 million has been transferred to the general reserve.

On behalf of my fellow directors, I wish to express our gratitude and appreciation for the support and guidance extended by the Custodian of the Two Holy Mosques and the Crown Prince, the Ministry of Finance and the Saudi Arabian Monetary Agency. Finally, we extend our thanks to our valued clients and our correspondent banks for their continued trust and to our staff for their valued efforts.

Abdullatif Hamad Al-Jabr
Chairman



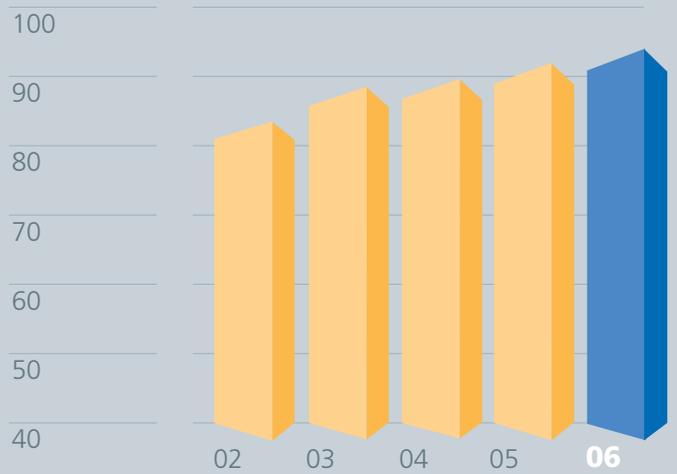
Net Income

SAR 2,505mn



Saudisation

91%



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, 2006 to the shareholders.

Overview

2006 was a successful year for Arab National Bank (ANB) as the Bank continued to benefit 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 2,505 million during 2006, an increase of 37% over the net income of SAR 1,828 million in 2005. Earnings per share also rose to SAR 7.71 from SAR 5.62 in 2005 as restated to reflect the 3-for-10 bonus share issue as approved by the Extraordinary General Assembly Meeting during March 2006.

Continued strong earnings growth across the full range of products and services offered by the Bank characterized the results for 2006. The Return on average assets (ROA) improved to 3.4% from 2.8% last year, while return on average equity (ROE) increased to 35.0% from 32.3% a year earlier. The compounded annual earnings growth rate for the last five years is 39%.

As a result, the Bank has grown in size and achieved strong results for 2006. Equally important, we have maintained a measured approach to business development, focused balanced growth and a cautious and prudent assessment of risk.

As a result of outstanding performance during 2006 and to maintain the high growth rates, the Board of Directors recommends to increase the Bank's capital from SAR 3,250 million to SAR 4,550 million by granting two bonus shares for every five shares held and transfers of SAR 650 million to the statutory reserve and SAR 1,270 million to the general reserve. The Board recommendation includes no further dividends distribution other than dividends distributed in the first half. It is worth mentioning the Bank has distributed net dividends of one Saudi Riyal per share in July 2006.

Operating Results

The Bank's net income for 2006 reached SAR 2,505 million an increase of 37% over the previous year. This increase is due to considerable growth in most income categories resulting in a 23% increase in total

operating income to SAR 3,855 million while the continued focus on operating expenses limited the growth of total operating expenses to 2.8%.

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 2,525 million from SAR 2,189 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 987 million from SAR 694 million the year before, an increase of 42%. Exchange income also reported an increase of 18% over previous year reaching SAR 135 million by the end of 2006. The Bank also realized SAR 106 million in investment gains benefiting from favorable opportunities during the year as compared to SAR 91 million 2005.

Operating expenses including provision for credit losses increased to SAR 1,351 million from 1,314 million during 2005. Revenue to expense efficiency ratio increased from 2.86 times in 2005 to 2.96 times in 2006. Revenues in this ratio exclude investment gains and, likewise, expenses exclude provision for credit losses.

Financial Position

Total assets at December 31, 2006 amounted to SAR 78,035 million as compared to SAR 67,492 million twelve months earlier, a rise of 16%. This is mainly due to an increase of loans and advances by SAR 10,969 million to SAR 49,747 million.

On the liabilities side of its balance sheet, the Bank grew customer deposits by 27% or SAR 12,941 million to SAR 61,773 at year end 2006. 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. In addition, the bank has

successfully issued USD 500 million lower tier 2 notes under its EMTN program in October 2006, reported under debt securities in issue. The notes carry a maturity of 10 years and the Bank has an option for early repayment after 5 years.

Capital Accounts

Total shareholders' equity stood at SAR 7,980 million at year-end 2006 compared with SAR 6,337 million at the 2005 year end with 325 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, 2006 the bank's capital adequacy ratio was 17.1% 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, 2006, 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	24,898	28,105	25,032	78,035
Total liabilities	28,693	34,926	6,436	70,055
Total operating income	2,653	693	509	3,855
Total operating expenses	1,071	224	55	1,350
Net income	1,582	469	454	2,505

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 and in the process of studying and implementing the remaining guidelines.

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 five 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 2005, the Extraordinary General Assembly re-elected the following as Saudi Board members, for a period of two years and eleven months 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, Khaled M. Saad Albawardi. The members of the Board has re-elected Abdullatif Hamad Al-Jabr as its Chairman.

Board members at December 31, 2006 nominated by Arab Bank are Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf, Ghassan Al Tarazi. Dr. Robert Eid was appointed as Managing Director effective 1/1/2006.

Five regular Board meetings were held during 2006. Below is the attendance record:

Date	Attendance record
March 12, 2006	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, Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf and Omar Al Masri
June 17, 2006	Abdullatif Hamad Al-Jabr, Dr. Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf and Ghassan Tarazi
September 12, 2006	Abdullatif Hamad Al-Jabr, Dr. Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Abdel Hamid A. Shoman, Dr. Farouk Al-Kharouf and Ghassan Tarazi
November 29, 2006	Abdullatif Hamad Al-Jabr, Dr. Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, and Dr. Farouk Al-Kharouf
December 17, 2006	Abdullatif Hamad Al-Jabr, Dr. Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi, Dr. Farouk Al-Kharouf and Ghassan Tarazi

Directors' Report

(continued)

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 Development Co. and Saudi Ceramics
Ahmed Abdullah Al-Akiel	Southern Province Cement Co.

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 seven times during 2006. 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 2006, 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. 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 five years:

SAR in Millions	2002	2003	2004	2005	2006
Assets					
Cash and balances with SAMA	3,134	1,678	7,061	2,495	3,216
Due from banks and other financial institutions	4,387	4,195	4,732	3,934	4,633
Investments, net	19,065	21,481	21,187	20,423	18,292
Loans and advances, net	16,016	20,172	28,558	38,779	49,747
Liabilities					
Due to banks and other financial institutions	10,041	9,109	9,821	8,377	3,099
Customer deposits	28,166	33,723	46,316	48,832	61,773
Term loan	-	-	-	1,313	1,313
Debt securities in issue	-	-	-	-	1,875

Outstanding Statutory Payments

Outstanding statutory payments are as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders	38.2
Income tax payable by the non Saudi shareholders	89.8

Human Resources

The bank had 3,416 staff at the end of 2006, compared to 2,869 at the end of 2005. The Saudization ratio at the end of 2006 reached 91%.

Donations and Social Responsibilities

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 granted donations totaling SAR 7 million during 2006.

Remuneration of Board Members

The members of the Board of Directors remuneration amounted to SAR 1,221,333 in 2006, while attendance fees for board, executive committee, and audit committee meetings were SAR 135,000, SAR 264,000, and SAR 90,000 respectively. Actual expenses of board members totaled SAR 558,635 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 12, 2006, 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 2006.

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,
15 January 2007**

Financial Highlights

Saudi Riyals in Millions

	2002	2003	2004	2005	2006
Net Commission Income	1,408	1,520	1,886	2,189	2,525
Net Income before Provisions	906	1,083	1,488	2,076	2,588
Net Income	584	767	1,167	1,828	2,505
Revenue to Expense Ratio	2.09%	2.32%	2.57%	2.86%	2.96%
Return on Assets (ROA)	1.4%	1.6%	2.1%	2.8%	3.4%
Return on Equity (ROE)	16.9%	20.4%	26.6%	32.3%	35.0%
Provisions / NPL Coverage Ratio	99%	135%	182%	201%	321%
Investments	19,065	21,481	21,187	20,423	18,292
Loans and Advances, net	16,016	20,172	28,558	38,779	49,747
Total Assets	44,299	49,201	63,325	67,492	78,035
Customer Deposits	28,166	33,723	46,316	48,832	61,773
Total Equity	3,548	3,977	4,970	6,337	7,980
Saudisation Ratio	81%	86%	87%	89%	91%

A

Standard & Poors

A²

Moody's

A⁻

Fitch Ratings
(Long Term)

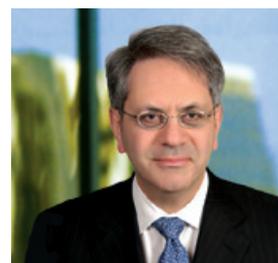
A⁺

Capital Intelligence
(Long Term)

Board of Directors



Abdullatif H. Al-Jabr
Chairman



Dr. Robert Eid
Managing Director

Shareholders

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

Executive Committee

Dr. Robert Eid
Chairman

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

Audit Committee

Rashed Saleh Al-Bakar
Chairman

Othman M. Al-Tuwaijri
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



Ghassan H. Tarazi

Business Review



Dr. Robert Eid
Managing Director

Arab National Bank's continued success over the year is largely due to our skill in responding to - and leading - rapid changes in the banking world. A Merchant Banking Group was created and new capabilities developed in Advisory Services.

Retail Banking

Over the year ANB has focused on providing a high quality, all round service, which meets our customers' individual requirements. Delivery Channels have been integrated so that ANB customers receive a seamless 'one stop' service.

Customers are benefiting from the Bank's growing distribution network – with a rapid expansion in branches, sales centres, sales kiosks, Telemoney remittance centres and ATMs. Also, a number of innovative Sharia-compliant products relating to land and apartment finance have been launched

These efforts have been rewarded with, for example, a significant growth in our share of the credit card market, as customers switched to ANB.

Through careful segmentation of retail customers, the Bank has been able to attract new customers and increase cross-selling of products. In addition, ANB is transforming its retail branches from transactional to sales centres, with the help of consultants McKinsey.

To ensure continued success, ANB is keen to identify and nurture talents within the organisation and this year the bank launched 'Truffles' – a fast track career plan for ANB's most promising employees.

Investment Services

In another successful year, ANB has transformed its complementary e-brokerage service into a key focus, reflecting the rapid progress of internet-based financial services, which the Bank has fully embraced.

The Bank is increasingly customising services to different client groups; a purpose for which an investment unit along with an investment centre were recently created, specifically for ladies. To provide a personalised and individual service, ANB has recruited, trained and licensed 16 female dealers to run the new ladies' trading unit.

Corporate and Merchant Banking

Corporate Banking Group grew its market share by writing new quality assets in target sectors. It also continued its focus on enhancing returns from trade related fee-based businesses to improve the overall revenue mix.

During the year, a separate unit - Merchant Banking Group - was created in order to diversify income streams as well as to meet customer demands. Also, new capabilities were developed in Advisory Services, Debt and Capital Market Offerings, Underwriting and Distribution, Private Equity and Structured Finance.



Middle East Call Center of the Year 2006 Award

Notable achievements in 2006 include:

1. The formation of a Housing Finance Company with a strategic partner that will come into operation during 2007;
2. The underwriting of a major rights' issue by Saudi Real Estate Company;
3. The closing of two further auto receivables purchase transactions amounting to close to USD 267 million;
4. The USD 133 Sharia-Compliant agreement for the financing of Northern Region Cement Plant project.



ANB future corporate building and branches reflect its new and strong image.



The joint Venture with a strategic partner in property development, buoys ANB's key role in housing finance.

Loans and Advances, net
SAR 49,747 mn





Total Assets

SAR 78,035mn



ANB'S MAJOR ACHIEVEMENTS INCLUDE WINNING THE 'MIDDLE EAST CALL CENTRE OF THE YEAR 2006' AWARD. WITH OUR HATIF ALARABI SERVICE. WE HAVE ALSO CREATED A CENTRALISED

CUSTOMER CARE UNIT

FOR ALL THE BANK'S RETAIL CUSTOMERS.

Business Review

(continued)

A VERY SUCCESSFUL YEAR IN WHICH E-CUSTOMERS INCREASED BY 27%.

Commercial Banking

ANB's Commercial Banking Division holds a strong and profitable mid-market franchise. The Bank has seen robust, well balanced growth in 2006, achieved through strengthening our relationship with existing customers while broadening our customer base and establishing a considerable number of new relationships.

Through diversification of the range of commercial banking products and services it offers, coupled with a cross-sell culture, ANB has been able meet our customers' banking demands and achieve a higher share of our customers' banking business.

Small businesses are an important sector to ANB, and the bank has been active in supporting those operations in the Kingdom. For example, ANB is one of the first banks to extend facilities to small business entities under the new 'Kafala' scheme, introduced by the Saudi Industrial Development Fund (SIDF) and supported by the Saudi Arabian Monetary Agency (SAMA).

Treasury

ANB Treasury raised USD 500 million Lower Tier II capital, as part of the Euro Medium Term Note Programme (EMTN), firmly establishing ANB as a participant in the international capital markets. The programme provides ample flexibility to raise debt in different forms and of varying maturities particularly in lower tier financing that will allow ANB to diversify the Bank's liquidity sources and support future balance sheet growth.

While Treasury has maintained ANB's proprietary investments in a constant ratio to the Bank's overall assets, it has made a significant, judicious reallocation to a wider range of assets. This strategy was reflected in the portfolio's solid performance over the year.

Foreign exchange experienced a significant growth in customer business.

With the launch of the Bank's Al Arabi E-trader platform, ANB enable clients to trade in multiple international markets using a range of instruments. This platform, the first of its kind in the Kingdom, offers real time online access to financial markets and greater convenience to customers, supported by state-of-the-art technology.

The year was marked with new additions to Treasury's pool of talented people. Their expertise and skills are already delivering results which are clear to see in all areas of our business, helping to create a truly competitive and professional Treasury service.

London Branch

Operating from the world's foremost financial centre, for more than 15 years, ANB London offers clients a dedicated Treasury, Corporate and Private Banking service.

On the back of a strong UK property market in 2006, the branch has added various new residential property loans to its portfolio during the year, and expanded in to commercial property financing in the form of sale and leaseback agreements.

The branch captured a larger percentage of Trade Finance business emanating from the Kingdom in favour of European beneficiaries. The Branch has issued guarantees during 2006 in support of the bank's customers' new engineering contracts in the Gulf.

Internet Banking

A very successful year in which e-customers increased by 27%.

A strong focus on two investment services, alarabi tadawul (eBrokerage) and iktitab-alarabi (internet IPO) resulted in a 45% growth in the sale of local shares for these channels.

For the Corporate Group, the Internet area implemented a new business-to-business dynamic platform, connecting up to multiple companies to provide electronic and fully automated banking services.

In 2006, ANB's website has been improved to include many services such as Career Corner, Online Applications for credit cards and loans. In turn, the Employee Portal has also been developed (B2e) and became the base for many web applications such as Upscale Customer Profiling System, Product Manual, e-Learning Courses and eCRM Integration with the Capri Customer Care System.

Information Technology

ANB's business growth has been strongly supported by the in-house information technology (IT) section during 2006, and the role of IT will continue to grow and develop in the future.

Phone banking is also an increasingly popular channel with customers who find it easy and convenient to use. To meet their needs, ANB is installing more telephone lines and increasing the capacity for phone banking.

To bring channels fully up-to-date, the Bank is replacing its older hardware technology with the newest now available, taking full advantage of increases in processing speed and power, along with expanded

SMART CARDS (SPAN 11)

IN 2007 THROUGHOUT THE KINGDOM. SO FAR, ALL ATM'S, POS AND CARDS APPLICATIONS ARE NOW SMART CARD ENABLED. THESE CARDS ARE THE FUTURE, OFFERING EXPANDED CAPABILITY AND SECURITY FOR THE BANK AND FOR OUR CUSTOMERS.

Business Review

(continued)

Information Technology (continued)

storage capability to support old and new services for its customers.

The most secure network now available has been installed in Head Office. It provides greater efficiency, speed of transaction, increase in security and decrease in risk.

By expanding the services available from ANB's Business Continuity Centre, the Bank is ensuring that those services will still be available to clients in the event of business disruption, for any reason.

ANB has been selected for the pilot roll out of smart cards (Span 11) in 2007 throughout the Kingdom. So far, all ATM's, POS and cards applications are now smart card enabled. These cards are the future, offering expanded capability and security for the bank and for our customers.

Risk Management

ANB's Risk Management Group identifies measures and mitigates risk on a Bank-wide basis, to achieve the optimal trade-off in terms of risk and reward. Implementation of the new Basel Capital Accord has given new impetus to our activities and various new risk management initiatives were undertaken during 2006. The Group's activities are divided into three key areas:

Credit Risk establishes lending policies, approval authorities, single party credit limits and portfolio concentration limits for the Bank. It also provides an independent assessment of the overall portfolio quality. By enhancing our systems and procedures to improve credit risk management techniques, ANB is moving towards the implementation of the Internal Risk Based (IRB) approach under the Basel-II Accord.

Market Risk monitors market and liquidity risk using a combination of rate sensitivities, gap analysis, ratios, Value at Risk (VaR) and stress testing. It is involved in asset liability management, balance sheet changes and economic capital management. Market Risk is working towards implementing the Internal Model (IM) approach of Basel-II and is deploying an integrated data warehouse and analytical tool to comply with best practices.

Operational Risk uses the Control and Risk Self Assessment (CRSA) programme to profile operational risk across the Bank. The section develops the Bank's operational risk policies and procedures and conducts programmes to improve awareness of this type of risk across the Bank. It is also working towards implementing a framework to meet the requirements of the Advanced Measurement Approach (AMA) of Basel-II.

The Credit Group

The Credit Group was separated from the Risk Management Group during 2006 to enable it to focus more tightly on its main responsibilities - the assessment and review of credit risk and the delivery of credit services to clients.

Staffed by a team of highly skilled, experienced credit officers using cutting edge technology, the Group plays a pivotal role in the long-term profitable growth of the Bank by observing the most advanced risk management practices. The Group continues to review and develop its procedures and systems to further enhance efficiency and quality. It also plays an important role in helping the Bank adopt regulatory changes and continues to take part in the implementation of the Risk Management Group.

STAFFED BY A TEAM OF HIGHLY SKILLED, EXPERIENCED CREDIT OFFICERS, THE CREDIT GROUP PLAYS A PIVOTAL ROLE IN PRESERVING ASSET QUALITY.

Corporate Governance and Compliance

Good governance and compliance with the relevant laws and regulatory regimes has always been an important focus for ANB. The Bank has embedded a corporate culture that emphasizes standards of honesty and integrity, where senior managers lead by example and all staff strive to observe the spirit as well as the letter of the law.

The management has reiterated the need for high ethical standards by reinforcing the Compliance Function, ensuring that it is both independent and sufficiently resourced.

Having strengthened ANB's culture of compliance, we can now build on this foundation to achieve sustained confidence and value. The Bank and its staff:

- aspire to the highest standards of ethical conduct and maintain compliance with laws, rules and regulations that govern the Bank,
- enforce and adhere to the Bank's Code of Ethical Behaviour and Compliance procedures;
- recognize that preventing money laundering and identifying possible terrorist financing activities is an ongoing process that involves constant diligence and fully committed to remaining constantly vigilant to prevent the use of products and services by those who would abuse them.



Customer Deposits

SAR 61,773mn



INITIATIVES

DURING THE YEAR, FOCUSED ON STRENGTHENING
ITS CAPACITY TO SUPPORT AND PARTNER BUSINESS
GROUPS TO MEET FUTURE DEMANDS.

Business Review

(continued)

Corporate Governance and Compliance (continued)

The Board, Audit Committee and the senior management takes compliance and the Code of Ethical Behaviour to their heart and demonstrate this commitment through their actions.

Human Resources and Training

The Human Resources Group (HRG) has launched a number of initiatives during the year, focused on strengthening its capacity to support and partner business groups to meet future demands. The following projects are just a few examples of our activities.

ANB has commissioned an ambitious project to recruit, train and deploy a large complement of Saudi female staff to fill various positions in the Bank at both operational and managerial levels. The aim is to substantially tap into a huge captive resource pool of educated and aspiring Saudi women. This exercise, on completion, could be claimed to be one of the first of its kind in the Kingdom's banking industry.

The Bank has launched an on-going initiative to select and develop more than 220 talented Saudi staff members across all departments in the Bank under the banner of 'Truffles'. This exercise is aimed at developing and putting in place the future leaders of the Bank.

HRG has commissioned a study through the renowned international HR consulting group, McLagan Partners UK, to strengthen the Bank's compensation and benefits programmes with specific emphasis on performance rewards and long-term employee retention programmes. Once implemented successfully, the recommendations will enable the Bank to offer itself as 'Employer of Choice' for aspiring new employees.

ANB in 2006 started the automation of HRG processes by introducing state-of-the-art Oracle HRMS taking HR shared services almost to the front doorstep of business groups and individual employees.

Alternative Delivery Channels

In 2006, ANB decided to bring all of its Alternative Delivery Channels under one umbrella to ensure a consistent vision and delivery approach in line with the Bank's overall strategy. This initiative will also maximise the efficiency of Alternative Delivery Channels by providing the appropriate mix of branches and channels.

The channel integration approach will add great value to ANB's existing and potential customers by creating an integrated value chain and by streamlining customer points of contact, eventually leading to greater customer satisfaction and convenience. The new structure includes the following units:

- Phone banking services - Hatif Alarabi
- ATM network
- Telesales
- Retail internet banking
- Retail customer care unit
- Channel integration unit

ANB's major achievements for 2006 in this area include winning the 'Middle East Call Centre of the Year 2006' award ahead of all call centres in the Middle East region, with our Hatif Alarabi service. We have also created a centralised Customer Care Unit for all the Bank's retail customers.

THE BANK HAS LAUNCHED AN ON-GOING INITIATIVE TO SELECT AND DEVELOP MORE THAN 220 TALENTED SAUDI STAFF MEMBERS ACROSS ALL DEPARTMENTS IN THE BANK UNDER THE BANNER OF 'TRUFFLES'.

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 24 million over the years.