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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 Message



Abdullatif Hamad Al-Jabr
Chairman

It was another year of solid achievement for ANB. All key business units maintained and built upon the progress of recent years and, despite the unprecedented turbulence in the global markets, produced satisfactory results.

Saudi Arabia is blessed with an economy that is well resourced and is characterized by strong underlying fundamentals. Notwithstanding the precipitous decline in the price of oil, we believe it will remain largely immune to the problems that are besetting the global economy.

ANB's net Income in 2008 amounted to \$663 million, up by 1% over 2007. Loans and advances increased by 22% to \$19.9 billion. Total Assets at year-end amounted to \$32 billion, an increase of 28% for the period. Return on Assets (ROA) was a commendable 2.3% for the year.

2008 was marked by a number of initiatives designed to provide an enhanced level of service to our customers and to unlock greater synergies from our core platforms and channels. We successfully launched the new online banking portal – anb net – and further advanced the implementation of the new core banking system, which will be commissioned in mid 2009. This new platform will allow us to further enhance our services and will provide for a new benchmark for customer service.

During the year we opened 8 new branches, 10 TeleMoney Centers, 9 Sales Centers and 10 new Ladies' Sections. Additionally, 190 new automatic teller machines (ATMs) were installed across the Kingdom, while 28 were relocated. This reflects our commitment to steady growth and expansion of our franchise.

The turbulent economic conditions are likely to persist throughout 2009. We anticipate and are prepared for a more challenging operating environment and we intend to remain vigilant and cautious in all our business areas.

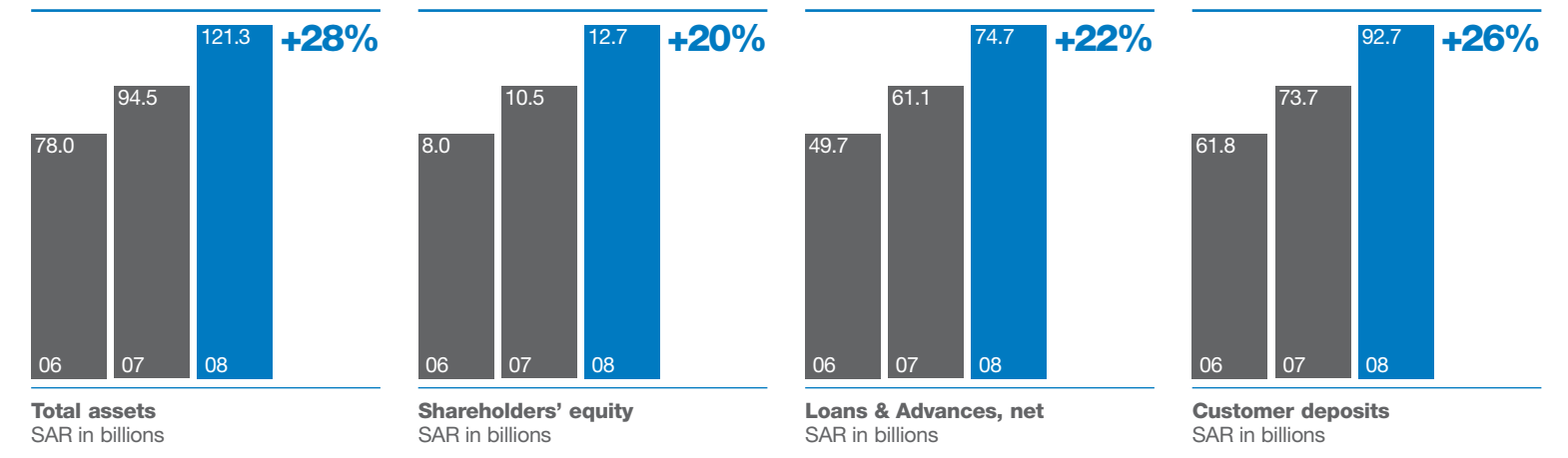
The recently announced budget would provide a significant counter to the turbulence and challenges of the global economy. We are confident that this, together with our strong capital base, our conservative risk management culture and our strong and loyal customer base will allow us to face the future with confidence.

On behalf of the Board of Directors and myself, I would like to thank our valued customers for their trust and support, and I am pleased to extend my hearty congratulations to the management and the staff on the outstanding performance achieved by the Bank. I wish them greater success in the year ahead.

Finally, I would like 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.

Abdullatif Hamad Al-Jabr
Chairman

Financial Highlights



	Saudi Riyals in Millions				
	2008	2007	2006	2005	2004
Net Commission Income	3,354	2,904	2,525	2,189	1,886
Net Income before Provisions	2,546	2,528	2,588	2,076	1,488
Net Income	2,486	2,461	2,505	1,828	1,167
Revenue to Expense Ratio	2.88%	2.78%	2.96%	2.86%	2.57%
Return on Assets (ROA)	2.3%	2.9%	3.4%	2.8%	2.1%
Return on Equity (ROE)	21.4%	27%	35.0%	32.3%	26.6%
Provisions / NPL Coverage Ratio	349%	354%	321%	201%	182%
Investments	28,228	21,025	18,292	20,423	21,187
Loans and Advances, net	74,662	61,122	49,747	38,779	28,558
Total Assets	121,307	94,468	78,035	67,492	63,325
Customer Deposits	92,743	73,692	61,773	48,832	46,316
Total Equity	12,671	10,525	7,980	6,337	4,970

Standard & Poors

Moody's

Fitch Ratings

Capital Intelligence

Board of Directors

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
Ghassan H. Tarazi

Audit Committee

Ghassan H. Tarazi - Chairman
Rashed Saleh Al-Bakar
Othman M. Al-Tuwaijri

Directors' Report

The Board of Directors is pleased to submit the Annual Report of the Arab National Bank for the financial year ended December 31, 2008 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 131 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

The Bank achieved a net income of SAR 2,486 million compared to SAR 2,461 million for 2007, an increase by 1%. Against the backdrop of a severe global crisis, this result represents a positive achievement reflecting the Bank's conservative policies and culture.

Most of the revenue items showed steady growth. Net special commissions income increased by 15%, fees from banking services grew by 8% and foreign exchange income increased by 32%.

Loans and advances grew by 22% to reach SAR 74,662 million while the investments portfolio rose by 34% to reach SAR 28,228 million, mostly due to the increase in the Bank's holdings of Saudi Treasury bills. Customer deposits increased by 26% to reach SAR 92,743 million compared to SAR 73,692 million in 2007. Total assets increased by 28% to reach SAR 121,307 million by end of 2008.

Total shareholders' equity went up by 20% to SAR 12,671 million compared to SAR 10,525 in 2007. Total issued shares stood at 650 million by end of 2008.

During 2008, the Bank further expanded its branch network and continued to upgrade its information technology infrastructure. This has resulted in an increase in the operating expenses by 10% compared to 2007.

Financial Highlights

	SAR in millions				
	2008	2007	2006	2005	2004
Loans and advances, net	74,662	61,122	49,747	38,779	28,558
Investments, net	28,228	21,025	18,292	20,423	21,187
Customer deposits	92,743	73,692	61,773	48,832	46,316
Shareholders' Equity	12,671	10,525	7,980	6,337	4,970
Total assets	121,307	94,468	78,035	67,492	63,325
Total operating income	4,135	3,956	3,855	3,142	2,428
Total operating expenses	1,642	1,495	1,351	1,314	1,261
Net Income	2,486	2,461	2,505	1,828	1,167



Abdullatif Hamad Al-Jabr
Chairman



Dr. Robert Eid
Managing Director



Rashid Saad Al-Rashid



Salah R. Al-Rashed



Abdullah Ibraheem Silsilah



Ahmed A. Al-Akeil



Khaled M. Saad Albawardi



Abdel Hamid A. Shoman



Mohammed A. Alghanamah



Ghassan H. Tarazi

Directors' Report

(continued)

Geographical Analysis of Revenues

Most of the Bank's revenues are achieved through its activities in the Kingdom of Saudi Arabia as follows:

	SAR '000
Central Region *	2,277,012
Western Region	1,074,984
Eastern Region	783,187
Total	4,135,183

*Including London branch revenues (not material to be disclosed separately).

Dividend Distribution Policy

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

- 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.
- 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.
- 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.
- The Board of Directors may decide to distribute interim dividend based on the Bank's financial position.
- 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
2008 net income	2,486,124
Earnings retained from previous years	86,979
Total	2,573,103

Distributed as follows:

Transferred to statutory reserve	(624,000)
Zakat	(82,023)
Dividend distribution (SAR 1 per share)	(650,000)
Retained earnings for 2008	1,217,080

Future Plans

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

- Branch network expansion and transformation
- Incorporate companies and ventures in fields such as:
 - Heavy equipment lease
 - Insurance

It is worth mentioning that during 2008 the Bank incorporated an investment company (ANBI), and participated in foundation of a home finance company (Saudi Home Loans Company).

- Total Upgrade of the Bank's information and communication systems including replacement of the core banking system, implementation of new systems in treasury and investment, in addition to upgrading the branches' communication network.
- Regional expansion through opening of branches in some of the Gulf countries.

Principal activities

For management purpose the Bank is organized into the following major business 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, 2008, its total operating income, expenses and net income for the year then ended, by business segments, are as follows:

	SAR '000					
	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	Total
2008						
Total assets	25,391,796	52,845,677	41,780,980	54,786	1,233,903	121,307,142
Total liabilities	36,210,351	58,070,342	12,821,309	1,250,201	283,641	108,635,844
Total operating income	2,462,212	1,008,116	241,707	180,417	242,731	4,135,183
Total operating expenses	1,332,765	104,062	78,967	119,244	7,069	1,642,107
Share in losses of an associate	-	-	-	-	6,952	6,952
Net income for the year	1,129,447	904,054	162,740	61,173	228,710	2,486,124

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 include the normal voting right.

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. During 2008, the Bank repaid a 3-year syndicated term loan facility agreement for an amount of USD 350 million.

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 comprises ten members of whom six represent the Saudi shareholders and are appointed in the Ordinary General Assembly Meeting for a term of three years. Arab Bank PLC appoints the remaining four members. 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 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 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, 2008 appointed by Arab Bank are Abdel Hamid A. Shoman, Mohammed A. Alghanamah, Ghassan H. Tarazi and Dr. Robert Eid (Managing Director).

The Board of Directors as at December 31, 2008 composed of the following:

S	Name	Position
1-	Abdullatif Hamad Al-Jabr	Chairman of the Board (independent)
2-	Dr. Robert Eid	Board member (executive)
3-	Rashid Saad Al-Rashid	Board member (independent)
4-	Salah Rashed Al-Rashed	Board member (independent)
5-	Ahmed Abdullah Al-Akeil	Board member (independent)
6-	Abdullah Ibraheem Silsilah	Board member (independent)
7-	Khaled M. Saad Albawardi	Board member (independent)
8-	Abdel Hamid A. Shoman	Board member (not independent)
9-	Mohammed A. Alghanamah	Board member (not independent)
10-	Ghassan H. Tarazi	Board member (not independent)

Five regular Board meetings were held during 2008. Below is the attendance record:

Date Attendance record March 16, 2008

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 Mohammed A. Alghanamah.

June 8, 2008

Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Dr. Farouk Al-Kharouf and Mohammed A. Alghanamah.

September 20, 2008

Abdullatif Hamad Al-Jabr, Robert Eid, Rashid Saad Al-Rashid, Salah Rashed Al-Rashed and Mohammed A. Alghanamah.

October 26, 2008

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, Mohammed A. Alghanamah and Ghassan Tarazi.

December 21, 2008

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.

Note: Ghassan Tarazi was appointed with effect from 14/7/2008 in place of Dr. Farouk Wasif Al-Kharouf who was (Board member, executive committee member, chairman of the audit committee) and whose relationship ended with Arab Bank PLC.

Directors' Report

(continued)

Directors' membership in other listed joint stock companies' Boards

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

Director	Joint stock company
Salah Rashed Al-Rashed	Arriyadh Development Co.
Ahmed Abdullah Al-Akiel	Southern Province Cement Co. Sanad Cooperative Insurance Co. Arab Paper Manufacturing Co.
Khaled M. Saad Albawardi	Basic Chemical Industries Co. (BCI)

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 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. 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 and ensuring efficient and effective management of the Bank. The Executive Committee performs the functions of the Nominations and Remunerations Committee as per authorization of the Board of Directors.

Annual remunerations and compensations to non-executive Board members amounted to SAR 2,280,000 and SAR 240,000 for executive members, and allowances to non-executive Board members amounted to SAR 288,000 and SAR 63,000 for executive members. Compensations to non-executive Board members amounted to SAR 510,000 including travel and accommodation expenses. Salaries to senior executives including CEO and CFO amounted to SAR 13,438,000, while their allowances and compensations reached SAR 4,528,000 and their annual remunerations reached SAR 13,300,000. Remunerations to the audit committee amounted to SAR 270,000 and their attendance allowances reached SAR 63,000.

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. 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 implemented. The Committee recommends the appointment of external auditors to review 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 a board member and two independent non-executive directors. The Committee met seven times during 2008. 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 2008, the Audit Committee comprised Mr. Gahssan Tarazi (Chairman), Mr. Rashed Saleh Al-Baker and Mr. Othman M. Al-Tuwaijri.

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. 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.

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 defined and set by the Board of Directors. There are across the bank 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") and the Bank Senior Credit Committee. The Executive Committee also monitors the said exposures.

- 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 the Bank's 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, 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.

Bank Shares Ownership Percentages (in thousands)

1-Arab Bank PLC

At beginning of year		During the year*		At end of year	
No. of shares	Ownership %	No. of shares	Ownership %	No. of shares	Ownership %
182,000	40.00	78,000	42.86	260,000	40.00

2-Major Shareholders other than Board Members

Name	At beginning of year		During the year*		At end of year	
	No. of shares**	Ownership %	No. of shares**	Ownership %	No. of shares**	Ownership %
General Organization for Social Insurance	49,168	10.81	21,072	42.86	70,241	10.81

3-Board Members (excluding foreign partner), Senior Executives, their wives and minor children

Name	At beginning of year		During the year*		At end of year	
	No. of shares**	Ownership %	No. of shares**	Ownership %	No. of shares**	Ownership %
Abdullatif Hamad Al-Jabr & Al-Jabr Trading	26,897	5.91	9,929	36.92	36,827	5.67
Rashid Sadd Al-Rashid & Salah Al-Rashed & Rashed Abdul Rahman	5,348	1.18	2,292	42.86	7,641	1.18
Al-Rashed & Sons Co.	45,359	9.97	19,439	42.86	64,798	9.97
Ahmed Abdullah Al-Akiel	494	0.11	(139)	(28.10)	355	0.05
Abdullah Ibrahim Salsalah	26	0.01	11	42.86	37	0.01
Khaled M. Saad Albawardi	27	0.01	12	42.86	39	0.01
Alli Ahmed Abdullah Alhollaly	-	-	10	0.00	10	0.00
Asad Abdullah Hashem Alsadah	7	0.00	3	0.00	10	0.00
Adel Abdulmohsen Almagour	2	0.00	1	0.00	3	0.00

* Increase in 2008 number of shares include the issuance of 3 bonus shares for every 7 shares held.

** Board members' shares include wives and minor children.

Outstanding Statutory Payments

Outstanding statutory payments are as follows:

	SAR in Millions
Zakat attributable to Saudi shareholders	49.2
Income tax payable by the non Saudi shareholders	83.8

Human Resources

The bank had 3,666 staff at the end of 2008, compared to 3,557 at the end of 2007. The Saudization ratio at the end of 2008 reached 89.8%.

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 assistance to charitable, educational, and other social institutions, where the bank granted donations totaling SAR 5.1 million during 2008.

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 (35) 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 16, 2008, 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 2008.

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 also 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 acknowledge 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 acknowledge also 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 are responsible 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

19 January 2009

Business Review



Dr. Robert Eid
Managing Director & Chief Executive Officer

Notwithstanding the unprecedented turbulence in global markets, Arab National Bank's net income in 2008 reached SAR 2,486 million, up by 1% over 2007. Total footings reached SAR 121.3 billion reflecting a balanced and a conservative growth in various items of the balance sheet.

The outstanding developments of the year are outlined below:

Retail Banking

The Launch of a New Logo and Identity

Early in 2008, ANB unveiled its new logo and identity. The adoption of a new brand image underscored the Bank's commitment to providing a broader range of products and an enhanced level of service to its customers, while preserving its recognized heritage of conservative values and building on its track record of sustainable success.

Expansion of the Branch Network

ANB's branch network expansion programme continued in 2008, with the establishment of 8 new branches, 10 TeleMoney Centres, 9 Sales Centres and 10 new Ladies' Sections. Additionally, 190 new automatic teller machines (ATMs) were installed across the Kingdom, while 28 were relocated.

Segmentation

In 2008, ANB completed the life-stage and wealth-income segmentation programme launched in 2007 by allocating existing customers to the segments most appropriate for their profiles.

Alternative Delivery Channels

ANB's initiative to enhance the Alternative Delivery Channels (ADCs) in 2008 supports the Bank's drive to migrate low-value and routine transactions and enquiries from branches to alternative channels.

ADCs comprise ANB's Hatif Alarabi Phone Banking Services as well as its ATM network, and its Telesales, retail internet banking and retail customer care units. Major achievements of 2008 include:

- Hatif Alarabi won "The Middle East Best Technology Platform 2008" and "Middle East Best Quality Assurance Programme 2008" awards.
- The launch of an enhanced retail internet banking portal. "anb net" is one of the Bank's principal alternative channels, offering customers fast, safe, reliable and cost-effective banking with ANB from anywhere in the world.
- The expansion of the ATM network across the Kingdom, bringing the Bank's total number of ATMs and cash acceptance machines to more than 860.
- The launch of a new mobile ATM service.
- The transformation of the Telesales Centre into a fully-fledged professional Call Centre.

Corporate Banking

Corporate Bank

The Corporate Bank has continued its drive to diversify and enhance its income base. The Group's strategy is to continue its emphasis on the development of relationship-driven businesses, focusing on top-tier corporates in the Kingdom by offering a diversified range of products and services. These include cash management, trade finance, Islamic Banking, foreign exchange and project and structured finance products.

The corporate loan portfolio is well diversified across a broad spectrum of industries and groups. Lending continues to be based on selective, conservative and prudent criteria, and is focused on companies with strong balance sheets and robust cash flows. The quality of the portfolio is robust and the level of non-performing loans (NPLs) on its books is very low, reflecting the Bank's strong credit discipline and a proactive approach to risk management.

International Contracting

In 2007, ANB launched a new dedicated unit within the Corporate Banking Group named International Contracting, specializing in providing corporate banking products and services as well as project-related financing solutions to international operators executing contracts in Saudi Arabia. This unit has already enjoyed considerable success in developing relationships with European and Far Eastern contractors.

Commercial Banking Division

ANB's commercial banking division continues to deliver strong, and well-balanced growth while maintaining strict credit control standards and strengthening its position in the mid-market segment.

ANB continues to hold a robust and profitable mid-market franchise, with a strong client base and a portfolio characterized by its high yield and excellent credit quality.

Islamic Banking

Islamic Banking is responsible for developing and supporting the Islamic banking services of ANB and ANB Invest (ANBI). The Division provides four key services to the business units:

- Product Development: Developing Shariaa-compliant products providing financial solutions for all customer segments. Numerous finance, investment, hedging and Takaful products have been successfully developed in accordance with Shariaa guidelines.
- Training: In 2008, more than 385 bank employees were trained on Islamic Banking and on ANB's Shariaa-compliant products.
- Branch Conversion: In 2008, 18 outlets were either opened or converted from conventional banking into dedicated Islamic branches. In total, 57 branches, including 6 ladies sections, representing 35% of ANB's retail network, are now dedicated to providing Shariaa-compliant products and services.

At the end of 2008, 45% of ANB's total customer financing was Shariaa-compliant.

Treasury

As a financial services provider, Treasury has built a sophisticated platform offering a broad range of products to its customer base, ranging from foreign exchange trading and interest rate and commodity-hedging products, through to exotic futures and options, structured instruments and asset-backed solutions.

London Branch

ANB London operations are primarily focused on providing complementary and support services to the Bank's client base.

In 2008, the Bank introduced its ANB Platinum credit card in sterling, complementing the range of products and services offered to private banking customers.

The branch's expertise in estate planning has underpinned the continued growth of its client base in the residential and commercial property sectors in the UK. The branch has also continued to expand its corporate business with an emphasis on European multinationals working on projects and contracts in The Gulf's construction markets.

Strategic Investments

During the year, ANB established the Strategic Investments Group – a unit dedicated to the supervision of the Bank's investment in its affiliates and joint ventures. The Group is responsible for ensuring that the Bank maximizes the potential synergies from these ventures and that the highest standards of operational efficiency and corporate governance are maintained.

ANB Invest

Fiscal year 2008 was an important milestone for ANB Invest (ANBI), marking the company's first full year as the independent investment banking arm of Arab National Bank.

The company's funds are among the market leaders in the Saudi equity and fund-of-funds categories. ANB Invest has obtained approval for five new Shariaa-compliant funds.

In investment banking, the company leveraged its relationships with those of its parent to secure a number of advisory mandates in 2008. It also won co-underwriting roles in IPO syndicates for a number of corporate issuers.

Risk Management

ANB's Risk Management Group (RMG) provides independent and centralized management of risks through identification, measurement, monitoring, mitigation and control mechanisms, in order to optimise the balance between risk and return in line with the Bank's strategic objectives. RMG is also responsible for ensuring that the Bank complies with the Basle II capital adequacy requirements stipulated by SAMA in 2008. The Group's activities are divided into four key areas:

Credit Risk

- Establishes lending policies, approval authorization, single-party credit and portfolio concentration limits.
- Periodically assesses and reviews overall portfolio quality.
- Enhances systems and procedures to improve credit risk management techniques and to ensure compliance with the internal risk-based (IRB) approach to Basle II.

Business Review

(continued)

Market Risk

- Identifies, measures and monitors market risk and liquidity risk using a combination of criteria including gap analysis, value at risk (VAR) and stress testing.
- Contributes to the Bank's asset-liability and balance sheet management.
- Ensures compliance with international best practices in determining the Bank's market risk policy.
- Implements the financial risk management system (FRMS) to optimize market risk management techniques and approach to Basle II.

Operational Risk

- Develops operational risk management strategies in compliance with corporate governance standards.
- Manages a centralized operational loss database and conducts operational risk management assessments using control and risk self-assessment (CRSA) methodology.
- Measures, monitors and manages operational risk exposures effectively and proactively.
- Continues to work towards implementing the requirements of the Advanced Measurement Approach (AMA) under Basle II.

Business Continuity

- BCM was established to prevent any disruption to business operations caused by unforeseen events. This unit is well-equipped and staffed on a standby basis allowing it to commence operations at short notice.
- The preparedness and robustness of the Business Continuity Centre (BCC) is continuously tested through a series of exercises involving all business units, branches and TeleMoney centres.

Credit Group

The Credit Group is responsible for the assessment and review of the Bank's credit risk, the delivery of credit services to clients and for observing best risk management practices. The group therefore plays a pivotal role in safeguarding the sustainability of long-term, profitable growth by maintaining a balance between supporting growth in the credit portfolio while ensuring that its credit quality is not compromised.

Compliance

The Board has approved the Bank's corporate governance manual, building on the role of the Compliance division. This has been instrumental in monitoring and reviewing customer comments and implementing a customer relationship management (CRM) system capable of handling and analysing direct complaints, reporting these to the regulators and undertaking root-cause analysis.

Information Technology

2008 saw the successful integrated testing at ANB's Business Continuity Centre. This will ensure that in the event of any major disruption to the Head Office's data centre, all the Bank's transactions will continue to be processed through an automated fail-over to the new disaster recovery centre. ANB is the only major financial institution in the GCC region to have this capability.

Also in 2008, ANB achieved the ISO certification status in Information Security (27001). This is the only auditable international standard defining the requirements for an Information Security Management System (ISMS) and is designed to ensure the selection of adequate and proportionate security controls.

ANB's new Core Banking System (CBS) will be implemented in 2009, enhancing the Bank's ability rapidly to adopt and implement new revenue generation opportunities in retail banking.

The migration of information technology to a Service Oriented Architecture (SOA) will continue into 2009. This new architecture will allow the Bank to collapse and retire numerous current 'point solution' applications into less expensive and complex application platforms, significantly reducing ongoing maintenance costs.

Human Resources and Training

In 2008, the Human Resources Group (HRG) continued to fulfill its primary role of providing functional and professional support across the bank. Working closely with ANB group heads, HRG recruited significant numbers of high caliber candidates through key initiatives in resource management, hiring strategies and creativity in compensation and benefits planning.

The Group has maintained a tradition of recruiting distinguished Saudi graduates from reputable local and international universities to join the Graduate Trainee Management Programme for young Saudi business leaders.

Auditors' Report

To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank") and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (40) for the year then ended, other than note (39), and the information related to "Basel II disclosures" cross referenced in note (39), which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements taken as a whole:

- present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2008, and its consolidated financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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15 Safar 1430H
(10 February 2009)