



**His Royal Highness Prince Abdullah
Bin Abdul Aziz Al Saud**

The Crown Prince,
Deputy Premier and
Head of the National Guard



King Fahd Bin Abdul Aziz Al Saud

The Custodian of the
Two Holy Mosques



**His Royal Highness Prince Sultan
Bin Abdul Aziz Al Saud**

Second Deputy Premier,
Minister of Defence and
Aviation and Inspector General



serving

Financial Highlights

For the years ended December 1999 - 2004

Saudi Riyals in Millions

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------------------|--------|--------|--------|--------|--------|---------------|
| Net Commission Income | 920 | 1,115 | 1,266 | 1,408 | 1,520 | 1,886 |
| Net Income before Provisions | 550 | 688 | 789 | 906 | 1,083 | 1,488 |
| Provisions for Loans and Collateral | 220 | 283 | 303 | 322 | 317 | 321 |
| Net Income | 330 | 405 | 486 | 584 | 767 | 1,167 |
| Revenue to Expense Ratio | 1.76 | 2.03 | 2.07 | 2.09 | 2.32 | 2.87 |
| Return on Assets (ROA) | 0.9% | 1.1% | 1.3% | 1.4% | 1.6% | 2.1% |
| Return on Equity (ROE) | 10.9% | 13.0% | 14.9% | 16.9% | 20.4% | 26.6% |
| Provisions / NPL Coverage Ratio | 53% | 74% | 79% | 99% | 135% | 182% |
| Investments | 14,066 | 16,375 | 19,251 | 19,065 | 21,481 | 21,198 |
| Loans and Advances, net | 12,906 | 13,210 | 13,867 | 16,016 | 20,172 | 28,558 |
| Total Assets | 35,871 | 36,946 | 39,469 | 44,299 | 49,201 | 63,336 |
| Customer Deposits | 24,444 | 24,704 | 26,128 | 28,166 | 33,723 | 46,316 |
| Total Equity | 3,066 | 3,160 | 3,366 | 3,548 | 3,977 | 4,794 |
| Saudisation Ratio | 74% | 75% | 78% | 81% | 86% | 87% |

the kingdom

114 branches Kingdom-wide



Southern region



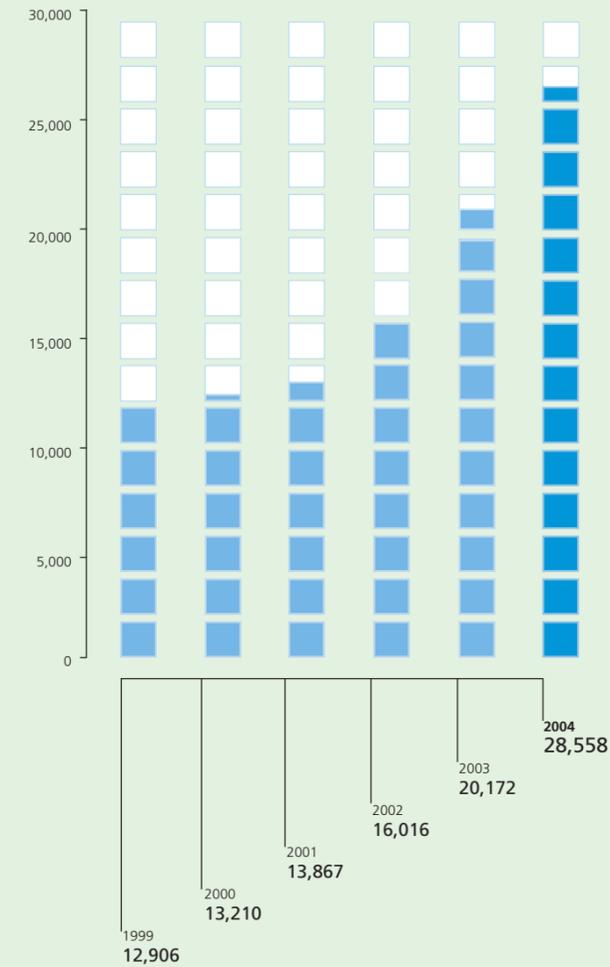
Net Income
SR millions



Customer deposits
SR millions



Loans and Advances, net
SR millions



Saudisation
percentage





Chairman's Statement

I AM PLEASED TO PRESENT THE ANNUAL REPORT AND ACCOUNTS OF ARAB NATIONAL BANK (ANB) FOR THE YEAR ENDING THE 31 DECEMBER 2004, MARKING OUR 25TH ANNIVERSARY ON A VERY POSITIVE NOTE.

Abdullatif Hamad Al-Jabr
Chairman



This has been a record year by any measure in the Bank's history over the past 25 years. Net income for 2004 reached SR1,167 million, a 52% rise over the previous year. Return on equity registered 26.6%, which is among the highest in the region.

Business growth at ANB was balanced and diversified among the key sectors of the Saudi economy. Loans, customer deposits and fee-based businesses all registered strong growth.

During the year we launched a major investment programme to modernise and expand our branch network and electronic delivery channels, as well as our investment centres.

Recognising the demand for Sharia-compliant services, we converted three of our branches so that they now offer only Sharia compliant products and services.



Best Overall Fund Manager
in Saudi Arabia
For The Last Two Years



Most Improved Bank in
The Middle East 2004

These impressive results have been achieved while at the same time the Bank continued its conservative loan provisions policy with the coverage ratio for non-performing loans reaching 182%.

Our overriding commitment is to achieve sound and sustainable growth in earnings. During the past six years, our net income has grown at a compound annual rate of 25%. This has translated to a growth in earnings per share during this period from SR8.25 per share to SR29.17 per share, a 3.5 fold increase.

The Saudi economy continued to show exceptionally strong performance during the year. Revenues recorded SR393 billion, an all-time high for the past two decades, and the budget registered a record surplus of SR98 billion. Corporate earnings were also strong. In addition, the stock market rose by 85%, following an increase of 76% in 2003. These factors, together with an environment of continuing low interest rates and high liquidity, augured well for strong economic growth.

Business growth at ANB was balanced and diversified among the key sectors of the Saudi economy. Loans, customer deposits and fee-based businesses all registered strong growth. During the year we launched a major investment programme to modernise and expand our branch network and electronic delivery channels, as well as our investment centres. We also introduced Internet-based letters of credit trade services.

Recognising the demand for Sharia-compliant services, we converted three of our branches so that they now offer only Sharia compliant products and services. We also introduced a new Sharia-compliant credit card and launched a highly successful Tawarruq consumer loan scheme, based on locally available commodities.

ANB played a major role in financing the new GSM licensed operator, Ittihad Ittiscalat, as well as processing subscription applications for the company's IPO. In addition, we played the leading role in arranging SR 6 billion of long-term financing for the Saudi Electricity Company.

In recognition of our strong performance, the Bank was honoured to receive the awards of 'Best Bank in Saudi Arabia' from Global Finance

magazine, 'Bank of the Year' from the Banker magazine and 'Best Overall Fund Manager' amongst Saudi banks for the performance of the bank's funds under management. During the year the Bank also received the award of 'Most Improved Bank in the Middle East' from Euromoney's Emerging Markets magazine.

All these achievements are thanks to the quality and the hard work of our staff. We have made major investments in staff training and career development, and will continue to do so. In particular, we have focused on recruiting promising Saudi staff and providing them with good career growth opportunities. This strategy is paying off, with the percentage of Saudis in our workforce reaching 87% at the end of 2004.

Based on all these results, the Board of Directors has recommended to grant one bonus share for every 4 shares held, plus a cash dividend of SR5 per share. Together with the semi-annual dividend of SR4 per share paid in July, this represents a total cash dividend of SR390 million to be paid to shareholders.

The Kingdom's private sector benefits from the continuous support and encouragement of the government. Together with my fellow directors, I wish to express our appreciation to the Custodian of the Two Holy Mosques and the Crown Prince. We also extend our gratitude to the Minister of Finance and the Governor of the Saudi Arabian Monetary Agency

Our thanks must also go to our customers and correspondent banks for their continuing faith and trust in ANB.

Finally, it is very clear that the skills, commitment and dedication of our Board, management and all our staff are largely responsible for this year's excellent results. Without them we could not have achieved such significant progress and we very much appreciate all their efforts.

Abdullatif Hamad Al-Jabr
Chairman



OUR EFFORTS DURING THE PAST FEW YEARS HAVE GONE TOWARDS BUILDING STRONG FOUNDATIONS FOR SUSTAINABLE, STRONG EARNINGS GROWTH. WE BELIEVE WE HAVE BUILT THE FOUNDATIONS NEEDED TO ACHIEVE OUR GOALS.

Directors' Report

Abdullatif H. Al-Jabr
Chairman

Nemeh Sabbagh
Managing Director

Rashid Saad Al-Rashid

Salah R. Al-Rashed

**Abdullah
Ibraheem Silsilah**

Ahmed A. Al-Akeil

**Khaled M. Saad
Albawardi**

**Abdelmajeed A.
Shoman**

**Abdel Hamid
A. Shoman**

**Dr. Farouk
El-Kharouf**



Financial Results

ANB achieved net income of SR 1,167 million in 2004 compared to SR 767 million in 2003, an increase of 52%. Total operating revenues rose by 28% to SR 2,428 million whilst operating expenses increased by only 11% to SR 1,261 million. In line with its conservative provisioning policy, the bank took SR 321 million in provisions for loan losses during the year, thus increasing the coverage ratio for non-performing loans to 182% by end of 2004. The bank has built a general provision of approximately 2.2% against its performing loan portfolio. The bank's assets reached SR 63,336 million in 2004 compared to SR 49,201 million at the end of 2003. Net loans and advances increased to SR 28,558 million compared to SR 20,172 million in 2003, whilst the bank's investment portfolio reached SR 21,198 million. Customer deposits increased by 37% to reach SR 46,316 million compared to SR 33,723 million in 2003. The bank's financial position - as in previous years - continues to reflect strong indicators and high ratios with regards to liquidity and capital adequacy. The bank's capital adequacy ratio of 15% is far above regional and international standards, further confirming the bank's strong financial position.

Appropriation of Income

Due to the outstanding performance recorded in 2004, the Board of Directors has recommended the distribution to shareholders of a cash dividend amounting to SR 390 million, which represents SR 9 per share which includes SR 214,8 million interim dividends distributed in July at SR 5 per share. The Board has also recommended the transfer of SR 200 million to statutory reserves, SR 550 million to general reserves, and to grant one bonus share for every four shares held. Following are the details of appropriation:

| | SR '000 |
|--|-----------|
| Net income for the year | 1,166,801 |
| Retained earnings brought forward from last year | 6,613 |
| Net change in fair value | (15,723) |
| Income available for distribution | 1,157,691 |
| Transfer to Statutory Reserve | 200,000 |
| Transfer to General Reserve | 550,000 |
| Proposed dividend of SR 9 per share | 390,032 |
| Transfer to retained earnings | 17,659 |

Human Resources

The bank had 2,491 staff at the end of 2004, compared to 2,163 at the end of 2003.

Operating Branches

The number of operating branches in the Kingdom stood at 114 at the end of 2004, with one further branch in London.

Donations and Social Responsibility

As an active and dedicated member of Saudi society, ANB 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 allocated donations totaling SR 5 million during 2004.

Board Members

In its meeting held on 17/3/2002, the Extraordinary General Assembly re-elected the following Saudi Board members, for a period of three years with effect from 1/5/2002: Abdullatif Hamad Al-Jabr (Chairman), Rashid Saad Al-Rashid, Salah Rashed Al-Rashed, Ahmed Abdullah Al-Akeil, Abdullah Ibraheem Silsilah, Khaled M. Saad Albawardi.

Audit Committee

During 2003, the Audit Committee comprised Mr. Saleh A. Al-Toaimi (Chairman), Mr. Mohammed A. Al-Omran and Dr. Farouk El-Kharouf.

Remuneration of Board Members

Board members remuneration amounted to SR 1,260,000 in 2004, while attendance fees for board, executive committee, and audit committee meetings reached SR 102,000, SR 243,000, and SR 78,000 respectively. Actual expenses of board members totalled SR 418,819 including travel and accommodation expenses to attend board, executive committee, and audit committee meetings.

External Auditors

In its meeting held on 14/3/2004, 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 2004.

Audit Committee

Saleh A. Al-Toaimi
Chairman

Mohammed A. Al-Omran
Dr. Farouk El-Kharouf

Shareholders

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

Executive Committee

Nemeh Sabbagh
Chairman

Salah R. Al-Rashed
Ahmed A. Al-Akeil
Abdullah Ibraheem Silsilah
Dr. Farouk El-Kharouf

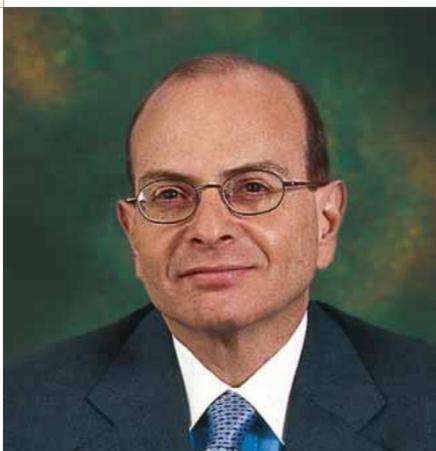


improving

2004 HAS SEEN ARAB NATIONAL BANK EMERGE AS A DYNAMIC FINANCIAL INSTITUTION WITH A SOLID REPUTATION FOR SUSTAINABLE GROWTH AND ASSET QUALITY, INCREASING PROFITABILITY AND TECHNICAL INNOVATION.

Business Review

Nemeh Sabbagh
Managing Director



Arab National Bank (ANB) has much to celebrate as it reaches its 25th anniversary. The Bank continues to grow, develop and innovate, keeping pace both with market trends and customer preferences. Our efforts have resulted in very strong results, with a 52% rise in our net income for the year, an all time high for ANB. All sectors of ANB's business have contributed to our success in 2004.

On top of these achievements, we are proud to mark our quarter century by winning a number of important industry awards for 2004. They include 'Best Bank in Saudi Arabia' from Global Finance magazine, 'Bank of the Year' from The Banker magazine, 'Best Foreign exchange Bank' in Saudi Arabia and the coveted 'Overall Fund Manager for 2004' at the annual Saudi Arabian Investment Funds Award. For the first time this year, we also won the 'Most Improved Bank in the Middle East' award from Emerging Markets, a Euromoney publication.

Retail Banking Group

ANB has taken advantage of a favorable retail banking environment in the Kingdom during 2004. During the year, we focused on attracting and retaining customers, improving services, developing innovative products, strengthening our risk management and increasing our profitability. Together with our strict cost controls, this has resulted in strong growth in revenues for our retail banking business.

We have also invested substantially in improving services to support further growth. For example, we relocated branches and refurbished many others, expanded our TeleMoney centres, invested in new ATMs and significantly improved staff skill levels across the retail bank.

Branch Banking

We put our Branch Strategic Plan for the overall expansion and relocation of the branch network into practice during 2004. The plan has clear objectives:

- To create model branches to serve the growing needs of our customers.
- To offer state of the art technology and service experience to satisfy the growing needs of our target customers.
- To increase our coverage across the country.

To meet growing demand, we have relocated a number of our branches and refurbished several others. We now have 114 branches, spread across the Kingdom, of which 14 have ladies' sections.

Our efforts have also focused on a brand building exercise, through which all branch signage and ATMs have been changed to display the new logo, reinforcing our new brand identity.

We converted three branches into 'Islamic branches' and held several seminars, led by our Shari'a scholars, to explain our Islamic products to current and potential customers. During 2004, we also launched an aggressive programme to develop the managers of tomorrow by recruiting fresh graduates from leading universities to all parts of the retail bank.

Our strategy of focusing on selected customer groups and offering them tailored packages of products is proving to be successful.

Al Safwah and Wahat Al Arabi, which are aimed at our high net worth customers, expanded significantly over the year, with the number of lounges exclusively for them rising to 25. We offer many value-added services to these customers, with a view to deepening our relationship with them. For example, we have expanded capacity in our investment centres and now provide an instant trading facility through our state of the art tadawul system. All these measures have helped us win new high net worth customers.

Our service for salaried customers also saw remarkable growth this year with our cross-selling approach, in particular, delivering very good results.

In addition to this, we have opened more sections exclusively for ladies, where women can carry out their banking transactions in privacy, enjoying excellent service quality.

Pensioners remain one of our key customer groups, with whom we have a very special relationship. We value our older customers greatly, and put a great deal of effort into continuously improving service standards for them, and offering product innovations which meet their needs.

services

In 2004, we carried out a comprehensive review of our branch operations and upgraded the skills of our operations personnel. Staff capacity has been increased to support greater business volumes.



BRANCH GROWTH IS WELL SUPPORTED BY OUR ELECTRONIC DELIVERY CHANNELS, HATIF AL ARABI (PHONE BANKING), ATMS AND THE INTERNET. THESE CHANNELS OFFER OUR CUSTOMERS A CHOICE OF WAYS IN WHICH TO CARRY OUT THEIR BANKING TRANSACTIONS SMOOTHLY, AND IN COMPLETE SECURITY.

Business Review (continued)

Branch Banking continued

To achieve this, we are putting a new pensions system in place. This will greatly improve our pension customers' experience when they visit or contact a branch and reduce turnaround time when they open an account, make enquiries or deal with any other service related issue. Many of these customers have started using our Emergency Cash service and appreciate the value and convenience which this offers. We have opened five remote offices to complement these services and reduce travel times for customers when they submit documents.

Branch growth is well supported by our electronic delivery channels - Hatif Al Arabi (phone banking), ATMs and the Internet. These channels offer our customers a choice of ways in which to carry out their banking transactions smoothly, and in complete security.

In 2004, we also carried out a comprehensive review of our branch operations and upgraded the skills of our operations personnel. Staff capacity has been increased to support greater business volumes. We are continually reviewing and adjusting our procedures and processes to increase productivity, with a tighter focus on improving customer service and reducing operational risk.

Consumer Loans and Credit Cards

The consumer loan market has grown significantly Kingdom-wide and ANB has been proactive in this highly competitive market.

We successfully launched a truly Islamic consumer loan product 'Al Tawarooq Al Mahalli, where the customer can take delivery of the product locally, without the Bank acting as an agent. This product has been welcomed in the market and, coupled with our stronger sales focus, has helped us attract new customers. Our emphasis on customer service has drastically reduced the number of customer issues and greatly improved the loan disbursement turnaround time.

Our portfolios are well managed and their quality has improved year on year in terms of non-performing loans. We have improved the Credit MIS and implemented the new FINNONE system, enabling us to offer new, improved product features to our customers and helping us to maintain a competitive advantage.

We also carried out a soft launch of 'Al Manzil Al Mubarak', an Islamic housing finance product. This product will be ready for a major launch in 2005.

The credit card business underwent good growth during 2004. We increased our business in relation to the issuing and merchant side of the business. The profitability of the cards business also rose significantly as a result of our previous investments in our systems and infrastructure. We now have leading edge processing, risk management, fraud early warning and merchant settlement systems.

In 2004 we focused on growth, alongside strict controls over costs and risk management. With our expanded sales force, we have started to attract new, profitable customers as well as cross-selling our cards to existing customers. We set up activation and usage units and ran attractive campaigns for our customers to increase usage of our credit cards. We also improved our relationships with our key merchants, who have then given us new business as they expand.

We re-launched our Islamic 'Al Mubarak Credit Card' very successfully. This card offers new attractive features and is compliant with sharia principles. The product has been very well received in the market.

TeleMoney

We further consolidated our strong position in the remittance market by focusing on selected countries. In the Philippines, we successfully defended our market share against competitive, aggressive pricing and we increased our market share in the large and lucrative Indian remittance market. We have now tie-ups with several large Indian banks, giving us adequate coverage for the remittance business. We are also major players in the remittance business to many Arab countries.

In 2004, we opened up new markets in Pakistan; Bangladesh and Indonesia will follow very soon, giving further leverage to our branches. We also fully implemented a new TeleMoney remittance system. This will reduce transaction time, simplify new account opening, meet regulatory requirements seamlessly and speed up settlement with the correspondent banks, all of which will enable us to increase throughput in our branches. We also opened six new branches, bringing the total number across Saudi Arabia to 27 at the end of 2004, up from 15 at the end of last year.

During the year, we re-trained all our staff to prepare them for the new growth phase we are entering in 2005. The training focuses on customer service, systems, sales and money laundering and fraud control. In a market which is very price sensitive and volume driven, we are now well prepared to handle new challenges and build a long term competitive position.

Investment Services

This has been another exceptional year for the Investment Services Group, despite continuing concerns regarding the international economic environment. The Saudi economy has remained buoyant, primarily supported by the unexpectedly high oil price levels throughout 2004, due to growth in global demand and continuing geo-political concerns over supply. Against this background, the Investment Services Group continues to provide a comprehensive range of products to ANB customers, mainly in Saudi Arabian and international share brokerage, investment funds and insurance.

The Saudi share brokerage department recorded its most successful year ever, with large increases in revenue and trading volume, on the back of the second year of the bull market in the Saudi stock market. The Bank now ranks as one of the largest brokers in Saudi Arabia.

growth with a tighter focus

COMMITMENT TO MEET CUSTOMER NEEDS



We re-launched our Islamic 'Al Mubarak Credit Card' very successfully. This card offers new attractive features and is compliant with sharia principles. The product has been very well received in the market.

Best Bank in Saudi Arabia

For the second year running, The Arab National Bank won Best Bank in Saudi Arabia 2004 prize awarded Global Finance magazine. The magazine is considered one of the world's best specialist publications and a reliable source of financial information and rating of international banks and other financial institutions. ANB's Chairman, Mr. Abdullatif Bin Hamed Bin Al Jaber, said

"Receiving this award for the second year is confirmation of ANB's tangible achievements and its position domestically and internationally. It should be added that ANB had been able of many achievements during 2003 including Bank of the Year in Saudi Arabia by The Banker Magazine and Best Internet Banking in Saudi Arabia by Global Finance for the second year running and Best Investment Manager in Saudi Arabia.



التفوق - التميز 5th April 2004





investing

THE BANK'S ACHIEVEMENTS IN MAINTAINING SUPERIOR FUND PERFORMANCE IN 2003 WAS RECOGNISED WITH THE PRESENTATION TO ANB OF 11 AWARDS AT THE ANNUAL SAUDI ARABIAN INVESTMENT FUND AWARDS CEREMONY IN MAY 2004.

Business Review (continued)

Investment Services continued

We continue to provide one of the most comprehensive trading and price dissemination networks in the Kingdom, enabling customers to access the Saudi share market from well over 60 locations country-wide.

The Asset Management Division also had a successful year, although growth in terms of assets under management has been under pressure. This was due both to the potentially advantageous returns for customers investing directly in the Saudi stock market and, towards the end of the year, the launch of a number of high profile initial public offerings.

The Bank's achievements in maintaining above average fund performance in 2003 was recognised with the presentation to ANB of 11 awards at the annual Saudi Arabian Investment Fund Awards ceremony in May 2004. We were also honored to receive the coveted award for the Best Overall Fund Manager for 2003, for the second year running. Following this success, we will continue to invest in developing appropriately trained and accredited Investment Advisers, who are able to meet with customers and help them develop their own investment strategies.

Business levels have improved for our International Shares Brokerage Service. However, although international equity markets are picking up, the exceptional performance of the Saudi stock market has proved a greater attraction to investors. Nevertheless, our brokerage service is well positioned to benefit from the improving international equity markets and intends to expand its range of products and services during 2005.

Corporate Banking

ANB's Corporate Banking Group continues to grow, achieving a strong performance in all key business areas. Improving returns have been achieved without compromising on the quality of businesses written.

We have again been successful in financing key infrastructure projects of national importance to the Kingdom, while acquiring new clients and establishing new relationships. We have achieved this by supporting their businesses through a package of commercial banking and project finance based facilities, resulting in higher and more diversified revenues.

Over the year, the Syndications & Corporate Finance team has been very active in lead arranging project finance and syndicated transactions. ANB was Mandated Lead Arranger and Documentation Bank on the SAR 6.0 billion term loan to Saudi Electricity Company. In addition, we were one of the largest financiers of the Etisalat Consortium, established to operate the Kingdom's second GSM license and first 3G mobile network. This is the largest Islamic finance transaction undertaken so far, at USD \$2.35 billion.

The introduction of the Capital Market Authority brings new opportunities for banks, as companies feel able to go public through Initial Public Offerings. ANB is well positioned to take advantage of such opportunities, as and when they arise.

During 2005, we will focus on maintaining and growing our corporate banking portfolio, fostering our good relationships with clients and matching their demands with new products and service developments. Our aim will be to enhance our quality service with new products in areas such as cash management and trade finance, focused on a 'target' market that matches our risk and lending criteria. Internally, we have made inroads in structuring our Islamic banking products to meet the needs of our corporate clients. We will also continue to expand our Project and Corporate Finance Division to ensure that we maintain our leading position in this market.

Commercial Banking

Since it was launched in 1999 to service mid-sized companies, our Commercial Banking division has matured into a fully fledged business unit and one of the key players in this segment in the Kingdom.

The Division has had strong, consistent year-on-year overall growth in the business. Our dedicated and skilled teams each specialize in a different industry – contracting, manufacturing and trading – working across the Kingdom. This has enabled us to develop new relationships and focus and grow the business, creating a positive impression in the market.

Through our specialist teams, we have also gained a better customer and business focus and an improved understanding of our customers' needs, resulting in improved services, higher efficiencies, a clearer understanding of risk and overall growth in our business.

We have also created a Small Business Unit within the division, enabling us to focus on this important sector. Smaller enterprises are critical to the Kingdom's economic development plans and we will be well positioned, in the near future, to exploit their growth.

Our strategy towards the mid-market has enabled us to build a good and profitable business which is well diversified both in terms of customer base and the range of products we offer. We will continue with these efforts and we expect our market share and earnings to grow in a sustainable manner.

in our networks



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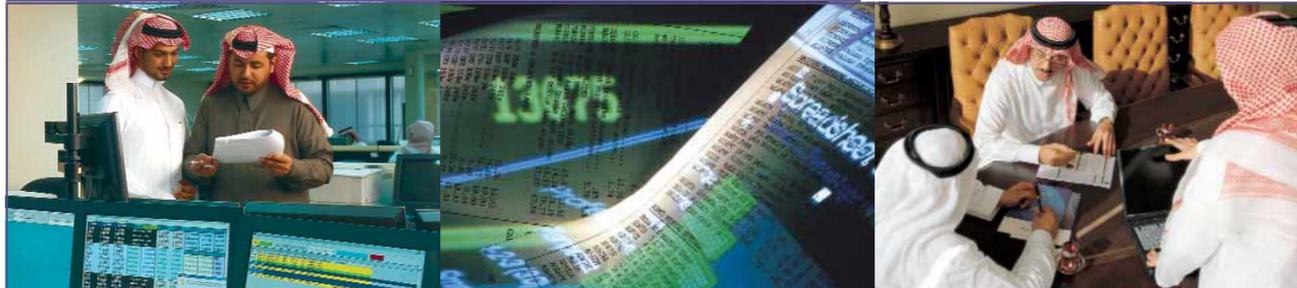


preparing

to handle

challenges

PROVIDING PREMIER INVESTMENT SERVICES



The Investment Services Group continues to provide leading products and services to customers and is committed to further increase its share of the Saudi investment market. We continue to provide one of the most comprehensive trading and price dissemination networks in the Kingdom, enabling customers to access the Saudi share market from well over 60 locations country-wide.

A Year of Awards

For the second consecutive year, Arab National Bank has won the award for Best Overall Fund Manager in the Saudi Arabian Annual Investment Fund Awards. The awards are given under the auspices of the Saudi Arabian Monetary Agency, through the Investment

Products Committee, and are independently audited and verified by Ernst Young.

ANB was first place in 5 categories and received awards in 11 categories overall. All of the funds that achieved first place position are managed by the Bank's own Investment Services Group.



Best Overall Fund Manager in Saudi Arabia For The Last Two Years



Arab news May 24th 2004

The Saudi share brokerage department recorded its most successful year ever, with large increases in revenue and trading volume, on the back of the second year of the bull market in the Saudi stock market. The Bank now ranks as one of the largest brokers in Saudi Arabia.





building

OVER THE LAST FEW YEARS, TREASURY GROUP, GUIDED BY ANB'S SENIOR MANAGEMENT, HAS BECOME MORE CUSTOMER FOCUSED. OUR AIM IS TO SHARE OUR LONG EXPERIENCE IN FINANCIAL MARKETS WITH CUSTOMERS, DEMONSTRATING HOW OUR COMMITMENT GOES BEYOND JUST SELLING FINANCIAL PRODUCTS

Business Review (continued)

Treasury

Traditionally, ANB Treasury has focused on managing the Bank's liquidity profile and asset/liability mismatches, while maximising returns on capital and excess liquidity. However, in recent years Treasury has introduced new management techniques to enhance risk-adjusted returns on the portfolio. This includes the introduction of various types of assets and products to further diversify risk and optimise returns on our investment portfolio.

We have also been a major contributor to the local inter-bank market, taking an active part in market making activity of SAR money market and off-balance sheet products. In addition, our foreign exchange inter-bank desk has successfully captured a significant market share of inter-bank regional FX flows.

Over the last few years, Treasury Group, has become more customer focused. Our aim is to share our long experience in financial markets with customers, demonstrating how our commitment goes beyond just selling financial products – it involves putting all our expertise and knowledge at our customers' disposal. We have been working closely with our customers to identify financial solutions and products that would improve their approach to exposure management.

Looking ahead, we plan to further improve our services by employing more professionals and introducing new systems that can handle a wide range of sophisticated and complex products – including fixed income, structured products, interest rate derivatives and exotic foreign exchange options. These improvements will be backed up by our access to global markets and our strength and depth of knowledge of the latest developments in financial markets.

Internet Area

The introduction of Internet banking services to the Kingdom by ANB in 2000 is one of our many success stories, achievement which is recognized by our customers, partners and international institutions who have all benefited from the service. We aim to build up this area of our work to meet and support internal and

external business challenges, now and in the future. Today, our retail and business customers can interact with ANB online to carry out a wide range of transactions. The customer base for Internet Banking has grown significantly compared to last year – and is still rising. Most recently, we added the interactive mobile banking service to our customers' set of service options and launched 'alarabi tradelink' service to facilitate the trade finance business of our corporate and commercial clients.

Secure, high quality, comprehensive, professional and easy-to-use are all attributes of our Internet products. We are committed to understanding customers' needs and we always combine the latest technology with our creativity to meet and surpass their expectations.

Information Technology

Information technology continues to deliver the capabilities to extend services to more customers, with share trading and Telemetry extended to more locations. Our ATMs provide more services online as well as accepting international cash cards. Internet capability has improved with online registration for retail customers, and with companies being able to initiate online Letters of Credit. The security of our services has increased with tight checks on account opening money transfers.

Measurable improvements have been made in the availability and response time of our systems, with extended hours for full phone banking services at weekends. We also improved the performance to handle the peak volumes of business around payroll and pension payment days. New up to date machines have been installed to run the main banking applications.

The risk of business interruptions is being significantly reduced by the commissioning of the new Business Continuity Centre in Sulay. This has greatly increased fibre optics telecommunications connections to Head Office, and has enough space to support all bank systems in the future.

Credit and Risk Management

The Credit Group

The Credit Group is an integral part of the Credit and Risk Management Group, sharing its broad vision of using the best risk management practices. The Credit Group is responsible for identifying, assessing and reducing credit risks, to maintain the integrity and quality of the loan portfolio. It also works to provide customers with high service standards and administer the provision of credit facilities, while maintaining efficient and effective controls. Group staff use advanced computer technology with a high degree of automation in the credit delivery process. This year the Group launched a number of initiatives specifically to improve and streamline credit procedures, within a prudent overall framework.

Risk Management Group

'Credit risk' represents the potential for financial loss when a borrower or counterparty fails to honor their financial or contractual obligation. The risk can arise from lending, trade finance, treasury and other activities. ANB has standards, policies and procedures in place for controlling and monitoring all such risks. Our Credit Risk department is responsible for drawing up high level credit policies. It also reviews the application of the banks' facility grading system as well as the credit authorities.

'Market risk' concerns the possibility that market conditions will change, affecting the Bank's liquidity and the value of its accrual, investment and trading portfolios, resulting in a loss to the Bank.

The Market Risk department is responsible for ensuring that the Bank is exposed to an acceptable level of risk as determined by the Assets and Liabilities Committee. It also recommends a limits structure and ensures that the Bank's use of risk limits accurately reflects current or expected market conditions.

on our expertise

Today, our retail and business customers can interact with ANB online to carry out a wide range of transactions. The customer base for Internet Banking has grown by more than 40 per cent compared to last year – and is still rising.



TO MAINTAIN OUR BANK'S REAL AND SUSTAINED GROWTH, OUR HUMAN RESOURCES GROUP WORKS HARD TO ENHANCE RELATIONSHIPS WITH ALL STAFF THROUGH VARIOUS SUPPORT SERVICES, STIMULATING THEIR MOTIVATION AND CONFIDENCE.

Business Review (continued)

Risk Management Group *continued*

'Operational risk' arises largely as a result of unauthorised activities such as fraud, error, inefficiencies, systems failures or other external factors.

Our Operation Risk Management department has now completed a profile of operational risk, across the Bank, which it started in 2002. Control and Risk Self Assessment was used to evaluate, measure and mitigate operational risk in the Bank. A newly appointed Operation Risk Steering Committee has been set up to oversee issues concerning the Bank's operational risks.

The Business Continuity Centre, which was designed to help major departments operate in case of disaster, will be transferred to a state of the art newly constructed building in 2005.

Compliance and Anti Money Laundering control

Compliance with corporate governance has a pivotal role for ANB, one which the management takes very seriously. Implementing compliance standards, for example, was a major objective for the bank which will result in superior compliance to regulatory standards.

ANB's philosophy has always been to protect its traditional values while being forward-thinking and embracing the best contemporary business practices to create a culture of compliance. This has resulted in ANB becoming one of the first banks in the Kingdom to adopt a Code of Ethical Behaviour and Whistle Blowing Policy.

Staff awareness programmes and integrated systems and procedures are in place to counter money laundering risks. These include suspicious transactions reporting, risk rating and customer profiling systems.

Human Resources and Training

Customer expectations and quality have been central to the year's training programme. For example:

- Programmes for new staff were improved and made more rigorous.
- In many parts of the Bank, staff received additional training in the effective implementation of procedures and controls.
- New product and service launches were also supported with training.
- Information technology staff received training related to new services and systems.
- Credit and risk management training was strengthened.
- Our future managers are being prepared through a focused career development programme.

All these efforts are intended to support and enable ANB's staff in meeting our customers' rising expectations.

Our drive to recruit Saudi staff was a paramount priority again this year, underlining our continuing commitment to the Saudisation process. Our efforts are paying off - by the end of 2004, the ratio of Saudi personnel to total Bank staff rose to a record 87 per cent.

To maintain our Bank's real and sustained growth, our Human Resources Group works hard to enhance relationships with all staff through various support services, stimulating their motivation and confidence. We believe that the Bank is now a leading choice in terms of career development, providing challenging and equitable opportunities.

London Branch

While ANB celebrates its 25th anniversary, the London Branch reached its fourteenth year of operating at the hub of the world's premier international financial centre. As our sole off-shore operation, the London Branch plays a key part in supporting the international business interests of our existing Saudi Arabian customers and their counterparts across Europe.

Throughout 2004, the Branch has worked hard to deliver a high quality corporate, treasury and personal banking service to its dedicated and select customer base. This has been underpinned by the buoyant economy in Saudi Arabia and the Gulf. Moving ahead to 2005, we look forward to expanding the customer base yet further, as well as automating more services.

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 22 million over the years.

Conclusion

Twenty-five years is a milestone for any organisation, but for ANB it also marks a high point this year, as we see our business grow from strength to strength. Keeping pace with change, and in touch with our customers' needs, has proved to be the key to success at ANB, enabling us to achieve a major turnaround.

Our focus on providing a range of financial products and services tailored to our customers' needs has enabled us to attract and retain clients in a very competitive market.

Our staff are critical to our success, especially as our business becomes more complex and competitive. To ensure that we have the skills to continue to excel, we are investing in ongoing staff training and development.

The challenges for the banking world over the next 25 years are difficult to predict, but what is certain is that ANB has never been in a stronger position to deal with them. We will continue to improve and develop, to the benefit of our customers – and to tackle whatever the future may bring.