



البنك العربي الوطني
arab national bank



The Banker Award for
Bank of the Year
in Saudi Arabia

Global Finance Award
Best Bank in
Saudi Arabia

Global Finance Award
for Best Retail Internet
Bank in Saudi Arabia

Best Overall
Fund Manager in
Saudi Arabia

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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



Delivering award-winning products and services requires a firm commitment to the most up-to-date and relevant technology.

Financial Highlights

For the years ended December 1999 - 2003

Saudi Riyals in Millions

	1999	2000	2001	2002	2003
Net Commission Income	920	1,115	1,266	1,408	1,520
Net Income before Provisions	550	688	789	906	1,083
Provisions for Loans and Collateral	220	283	303	322	317
Net Income	330	405	486	584	767
Revenue to Expense Ratio	1.76	2.03	2.07	2.09	2.32
Return on Assets (ROA)	0.9%	1.1%	1.2%	1.3%	1.6%
Return on Equity (ROE)	11%	13%	14%	17%	19%
Provisions / NPL Coverage Ratio	53%	66%	79%	99%	135%
Investments	14,066	16,375	19,251	19,065	21,481
Loans and Advances	12,684	13,210	13,867	16,016	20,172
Total Assets	35,191	36,946	39,469	44,299	49,201
Customer Deposits	24,273	24,704	26,128	28,166	33,723
Total Equity	3,066	3,160	3,366	3,548	3,977
Saudisation Ratio	74%	75%	78%	81%	86%

Emerging Markets
EUROMONEY

**Best IT Bank in the
Middle East
2003**

2003 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.



Chairman's Statement

I am pleased to present the twenty-fourth Annual Report and Accounts of Arab National Bank for the year ending the 31 December 2003.

This year has been a year of exceptionally strong performance for the Saudi economy despite the difficulties witnessed in the region.



The coming year promises new challenges in light of evolving changes in the global and regional economic environment, but I am confident that Arab National Bank will continue to build on its achievements in the year ahead.

Oil revenues of SR 320 billion were the highest in 20 years, the budget was in significant surplus by SR 45 billion and the Saudi stock market increased by more than 70%. This, together with low interest rates prevailing throughout the year and high liquidity in the banking system augured well for an environment of strong economic growth.

The year has also been a year of particular achievement for Arab National Bank, building on the strong performance of the past few years.

In my statement to shareholders last year, I emphasized the benefits that had been realized following the comprehensive business re-engineering program that the Bank commenced in 1999. Our primary commitment has been to provide a solid base for sustainable growth in profitability over the long term, with resultant superior returns to our shareholders. The results for 2003 are testament to the continuing success of this strategy with consistent year on year growth in the Bank's earnings and balance sheet strength.

Net operating income for 2003 reached a record SR 1,083 million. Net profit was SR 767 million, a year on year increase of 31%. Over the past five years, net profit has grown at a compound annual rate of 23%. Growth in earnings per share has been equally impressive, more than doubling in the same period. As a consequence of this impressive performance, there has been a significant appreciation in the market value of the Bank from SR 3.8 billion at the end of 1998 to SAR 14.2 billion at the end of 2003.

The bank continues to maintain its conservative provisioning policy. During 2003, provisions for loan losses were increased by SR 317 million thereby raising the coverage ratio for non-performing loans to 135%. General provisions for performing loans now stand at close to 2%, in line with best international standards.

The Bank's balance sheet remains strong. Customer deposits have grown by 20% and the loan book by 26%. Growth in the loan portfolio is diversified across the key sectors of the Saudi economy and the ratio of loans to customer deposits remains at a prudent level of 60%. Income growth during the year came as a result of strong performance from all the major business units. Particularly successful was the growth in fee income, which increased by 54%.

The international rating agencies have recognized the continuing strong performance of the Bank with Moody's, Fitch Ratings and Capital Intelligence raising their ratings for ANB during 2003.

Chairman's Statement

The Bank was also honored during 2003 with a number of awards from external organizations, "Bank of the Year in Saudi Arabia" from The Banker magazine, "Best Bank in Saudi Arabia" and for the second year running "Best Consumer Internet Bank in Saudi Arabia" from Global Finance magazine. In addition the Bank received the "Overall Fund Manager Award" among Saudi banks, an award that is given annually for the best performance of funds under management.

The Bank recognizes that the results for 2003 and its future plans could not be achieved without a loyal and dedicated workforce. We continue to invest in staff training, career development, selective recruitment and to develop future management from within the organization. The Bank continually focuses on increasing the level of Saudisation, which stands at 86% at the end of 2003, one of the highest ratios in the banking sector. The Bank is committed to developing its staff and to providing career growth opportunities.

The coming year promises new challenges in light of evolving changes in the global and regional economic environment, but I am confident that Arab National Bank will continue to build on its achievements in the year ahead. As I previously stated, our efforts during the past few years have gone toward building strong foundations for sustainable, strong earnings growth. We believe we have built the foundations needed to achieve our goals.

Based on the overall financial results of 2003 the Board of Directors has recommended a cash dividend of SR 415.7 million be paid to shareholders, equivalent to SR 11 per share, and to grant one bonus share for every nine shares held.

On behalf of the Board of Directors and all ANB staff, I would like to express my sincere appreciation for the support and encouragement extended to the private sector by the Government of the Custodian of the Two Holy Mosques, the Crown Prince and Second Deputy Premier, to the Minister of Finance and to the Governor of the Saudi Arabian Monetary Agency for their continued guidance and support.

Finally, I extend my thanks to our valued customers and correspondent banks for their continuing faith and trust in the Bank and to Members of the Board and the Bank's management and staff without whose commitment and dedication these results could not have been achieved.



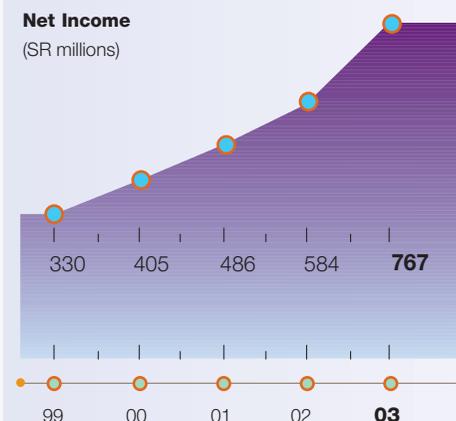
Abdullatif Hamad Al Jabr

Chairman

Highlights of the Year

- A** Net operating income at the end of 2003 reached a record SR 1,083 million.
- A** Customer deposits have grown by 20%.
- A** Net profit was SR 767 million, a year-on-year increase of 31%.
- A** The international rating agencies have raised their ratings for ANB.

Net Income (SR millions)



FINANCIAL RESULTS

ANB achieved net income of SR 767 million in 2003 compared to SR 584 million in 2002, an increase of 31%. Total operating revenues rose by 12% to SR 1,900 million whilst operating expenses increased by only 1% to SR 1,134 million. In line with its conservative provisioning policy, the bank took SR 317 million in provisions for loan losses and collateral held compared to SR 322 million in 2002. The coverage ratio for non-performing loans increased from 99% in 2002 to 135% at the end of 2003. The bank has built a general provision of approximately 1.9% against its performing loan portfolio. The bank's assets reached SR 49,201 million in 2003 compared to SR 44,299 million at the end of 2002, an increase of 11%. Net loans and advances increased to SR 20,172 million compared to SR 16,016 million in 2002, whilst the bank's investment portfolio increased to SR 21,481 million compared to SR 19,065 million in 2002. Customer deposits increased by 20% to reach SR 33,723 million compared to SR 28,166 million in 2002. 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 - at 18% of tier one - 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 2003, the Board of Directors has recommended the distribution to shareholders of a cash dividend amounting to SR 415.7 million, which represents SR 11 per share. The Board has also recommended the transfer of SR 150 million to statutory reserves, SR 200 million to general reserves, and to grant one bonus share for every nine shares held. Following are the details of appropriation:

	SR '000
Net income for the year	766,516
Retained earnings brought forward from last year	5,748
	<hr/>
Income available for distribution	772,264
Transfer to Statutory Reserve	150,000
Transfer to General Reserve	200,000
Proposed dividend of SR 11 per share	415,651
Transfer to retained earnings	6,613

HUMAN RESOURCES

The bank had 2,163 staff at the end of 2003, compared to 2,005 at the end of 2002.

OPERATING BRANCHES

The number of operating branches in the Kingdom stood at 114 at the end of 2003, 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 2003.

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 2003, while attendance fees for board, executive committee, and audit committee meetings reached SR 102,000, SR 234,000, and SR 81,000 respectively. Actual expenses of board members totaled SR 502,520 including travel and accommodation expenses to attend board, executive committee, and audit committee meetings.

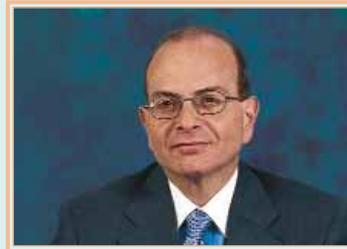
EXTERNAL AUDITORS

In its meeting held on 9/3/2003, the Extraordinary General Assembly appointed Messrs. Ernst & Young and Messrs. Deloitte & Touche and Bakr Abulkhair & Co. as external auditors of the bank's accounts for the year 2003.

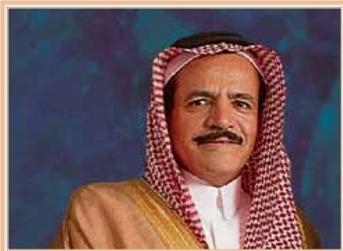
Board of Directors



Abdullatif H. Al-Jabr
Chairman



Nemeh Sabbagh
Managing Director



Rashid Saad Al-Rashid



Salah R. Al-Rashed



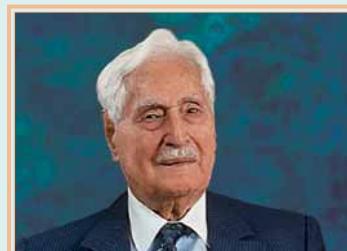
Abdullah Ibraheem Silsilah



Ahmed A. Al-Akeil



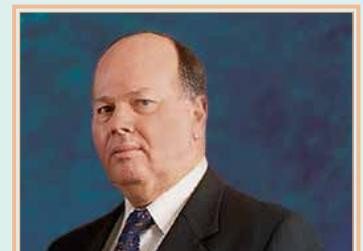
Khaled M. Saad Albawardi



Abdelmajeed A. Shoman



Abdel Hamid A. Shoman



Dr. Farouk El-Kharouf

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

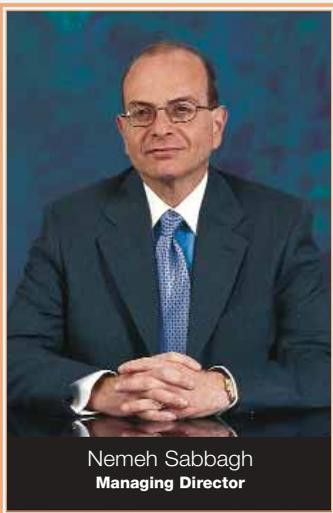
Salah R. Al-Rashed

Ahmed A. Al-Akeil

Abdullah Ibraheem Silsilah

Dr. Farouk El-Kharouf

2003 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.



The last five years have seen ANB transform itself. With a highly motivated staff and management, confident in our abilities, we have a strong sense of purpose.

The awards received this year and the increases in our credit ratings speak for themselves. We look forward to the future with confidence.

In 1999, the Bank was faced with a number of real and pressing challenges, but these have now been successfully addressed and overcome.

This year, we have received a number of industry awards – notably ‘Best Bank in Saudi Arabia’ from Global Finance magazine, ‘Bank of the Year’ from The Banker magazine, Best Internet Banking Provider for the Retail Market’ in Saudi Arabia and the coveted ‘Overall Fund Manager of 2002’ at the annual Saudi Arabian Investment Funds Awards.

We have also seen our credit rating upgraded by Moody’s, Fitch Ratings and Capital Intelligence. These can only reflect positively on the strength of ANB and its performance during the year.

RETAIL BANKING GROUP

Retail banking is growing rapidly in the Kingdom – not least at ANB. We have enjoyed substantial growth in all business sectors – Branch Banking, Consumer Loans, Credit Cards and TeleMoney (our remittance service). At the beginning of the year, our priorities were clearly defined as sales, service, risk management and profitability. By focusing unswervingly on these key objectives, we have improved service levels and grown revenues across the board, whilst at the same time maintaining strict control over costs and credit and operational risk management.

During 2003, we have invested substantially to fuel our strategy for future growth. This has included upgrading our branches, enlarging our ATM network and introducing state-of-the-art technology into our electronic delivery systems. We are well prepared for the introduction of the SPAN2 ‘smart’ card – a Kingdom-wide initiative by the Saudi Arabian Monetary Agency.

Branch Banking A strategic plan for branch banking has been formulated and is now in the implementation phase. This involves the opening of new branches, relocating others to improve customer accessibility and finalising the design of our model branches. Central to this plan is our brand building strategy, which has continued throughout the year. By the third quarter of 2004 all signage throughout the branch network will conform to a new visual identity. Our new model branch design clearly communicates our commitment to meeting the needs and expectations of our customers. A significant part of our investment has been allocated to the branch network so that we can deliver the premium quality banking experience that our customers now demand. We have also been active in recruiting staff to strengthen our existing team and identifying suitable graduates – whom we intend to groom as ANB’s managers of the future.

We believe that targeting specific customer segments is a priority as we seek to develop enduring long-term relationships with our customers. In 2003, the number of lounges dedicated to Wahat Al Arabi and Safwah customers reached 13. These enable us to provide more personalised and focused banking solutions.

Excellent progress has also been made in our initiative targeted at salaried individuals. We have doubled the number of customers registered with Manafa Al Arabi (a package comprising 12 products and services) and Hesab Al Mubarak (a completely Sharia-compliant package offering 10 products and services).

Pensioners, as a customer segment, remain extremely important to us and we value our relationships with them very highly. As a consequence, we constantly strive to improve our products and service levels by working closely with the Pension Fund Authority. During 2003, we have launched an Emergency Cash Service. We have also invested heavily in a new pensions delivery system, which makes the opening and processing of new accounts much simpler. As a further convenience, we have changed the payment day for monthly pensions from the 25th to the 15th of each hijra month, in order not to coincide with disbursement of other salaries.

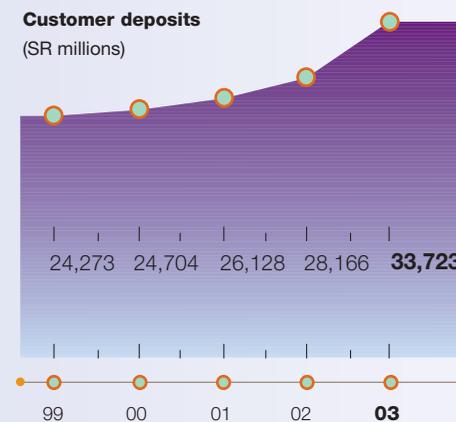


The diversity of our products and services reflects our broad and growing customer base drawn from all sectors of Saudi society.

Retail Banking Highlights of the Year

- Ⓐ Enlarging our ATM network.
- Ⓐ Introducing state-of-the-art technology into our electronic delivery systems.
- Ⓐ Prepared for the introduction of the SPAN2 'smart' card – a Kingdom-wide initiative by the Saudi Arabian Monetary Agency.

Customer deposits
(SR millions)



RETAIL BANKING GROUP CONTINUED

At present, there are 114 branches spread across the Kingdom, of which 12 have Ladies' Sections. The latter are staffed by experienced female staff to provide our female customers with solutions to all their banking needs in a private and comfortable environment.

Concurrent with our drive to develop and grow the branch network, we are vigorously pursuing our remote banking strategy, by promoting transactions through our ATMs, by telephone and via the internet. This strategy is already yielding encouraging results.

In essence, our objective is to deliver 'Financial Solutions for a Better Life' by delivering innovative products and services to each target segment and by offering a comprehensive banking relationship to our customers, designed to meet their evolving financial needs.

Consumer Loans The consumer loan market has witnessed significant growth Kingdom-wide and ANB has been successful in capturing a sizeable share of this market. As a result, our consumer loan portfolio has grown considerably in 2003. We also increased our target market during the year, made innovative offerings and improved the credit quality of the portfolio. We have also focused on training for customer service and sales staff and set up a Customer Care Unit to offer better turnaround time for customer service enquiries.

Going forward, we anticipate that demand for consumer loans will strengthen and we are well positioned to take advantage of this growth by improving our service standards and providing further product innovation that meets customer needs.

Credit Cards This has been a good year for ANB's credit card business. Whilst market growth has been sluggish in terms of issuing new cards, merchant volumes have experienced a significant increase during 2003. Our business underwent major changes during the year with the creation of dedicated sales agents channels, rationalisation of expenses and the establishment of an activation/usage unit. In addition, the merchant relationship management team has been enlarged and a Customer Interface Management System introduced. Increased cooperation between ANB and British Airways has given added impetus to our co-branded card, which will see additional benefits in the future. Overall, a good level of growth has been achieved thanks to increased activation and usage by high net worth individuals and a higher level of merchant acquisition. This, in turn, has resulted in a higher deployment of terminals in the marketplace.

TeleMoney Our overseas remittance service has performed very well during 2003. Gains in business to the important Philippines market continued to grow. We are also a major player in the Arab world – mainly in Egypt, Sudan, Jordan, Lebanon and Yemen.

During 2003, we launched two new fund transfer services – QuickCash (a door-to-door service) and RushMoney (with a 2 hour transaction timeframe). This was supported by a systems upgrade which reduced transaction times by more than 50%, enabling us to process much higher volumes of business. We are in the process of adding five new TeleMoney Centres and two Mini Centres, which will increase the number of centres from 15 to 22 during 2004.

Going forward, we are well on our way to gaining a footprint in the Indian subcontinent – mainly India and Pakistan – markets that offers attractive growth opportunities. We already have an alliance with two major banks that have extensive branch networks in India and we plan to launch our TeleMoney service to Pakistan during the second quarter of 2004.

INVESTMENT SERVICES

Despite continuing concerns about the international economic environment, Investment Services has witnessed an exceptional year. The Saudi economy has remained buoyant, mainly due to higher than expected oil prices. We continue to offer a comprehensive range of investment products – primarily in Saudi and international share brokerage, investment funds and insurance.

The Asset Management Division has had its most successful year on record, both in terms of assets under management and revenues. This follows the launch, late in 2001, of nine new investment funds and the restructuring of the existing range. During this period, assets under management have grown significantly – one of the biggest increases amongst Saudi banks. This accelerating rate of growth has been accompanied by higher than average investment performance and has led to the Bank receiving nine awards at the annual Saudi Arabian Investment Fund Awards for 2002 at a ceremony that took place in May 2003. The Bank was particularly honoured to receive the coveted award for Overall Fund Manager for 2002, as well as six other firsts and three further awards.



**Global Finance Award
for Best Retail Internet
Bank in Saudi Arabia
2003**

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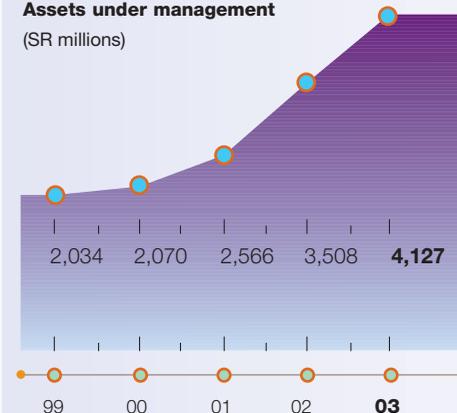


In this fast-changing world, we offer a wide range of carefully targeted and flexible card products to meet our customers' growing needs.

Investment Services Highlights of the Year

- A Asset Management Division had its most successful year on record.
- A Launching nine new investment funds and restructuring the existing range.
- A The Bank received nine awards at the Saudi Arabian Investment Fund Awards in 2003 for 2002.
- A Continues to offer the most comprehensive trading networks in Saudi Arabia.

Assets under management
(SR millions)



INVESTMENT SERVICES CONTINUED

The Saudi Share Brokerage Department has also had its most successful year to date, with strong growth in revenues and trading volumes. This was achieved on the back of a strong bull market and a buoyant Saudi economy. The Bank continues to offer one of the most comprehensive trading and price dissemination networks in Saudi Arabia, giving customers access to the Saudi share market from more than 50 locations Kingdom-wide.

International Share Brokerage has seen some improvement in business levels. However, despite more positive sentiment in the international equity markets, the exceptional performance of the Saudi stock market has proved to be a greater attraction for investors. In spite of this, the department is well positioned to benefit from any upswing internationally and we intend to expand the range of products and services available during 2004.

CORPORATE BANKING

This year, the Corporate Banking Group has seen strong performance across the board. Growth has been driven by high volumes of business, both on and off balance sheet, and through higher fee income. A new area of opportunity emerged in the shape of secured share acquisition facilities associated with the Initial Public Offering of shares in the Saudi Telecommunications Company.

Over the year, ANB has continued to participate actively in project finance and syndicated loans. Key transactions have included the first Independent Power Plant projects in the Kingdom – the US\$ 170 million SADAF Cogeneration Plant and the US\$ 595 million Saudi Aramco IPP project.

There are a number of principles that guide our drive for increasing growth and profitability. Controlling costs and continuing to invest in the business while striking a balance between the pursuit of growth and acceptable levels of risk are paramount. Maintaining credit quality and portfolio diversification across customer and industry groups is a key priority.

Staffing levels have been increased to support key product and management initiatives. Over the course of the year, our training cycle has focused on raising credit assessment skills, developing industry specific competencies and product knowledge and in building relationship management skills. At the very heart of our efforts, Saudisation remains a core objective.

On the broader stage, the marketplace continues to offer us a wide range of opportunities and we will continue to leverage our customer relationships and expertise, seize cross-selling opportunities and promote trade finance solutions. We aim to capture a greater share of our core customers' business and target new customer segments. We are also committed to developing and taking a more pivotal role in the project and syndicated finance business we undertake. In response to the increasing popularity of Islamic financial products, we are taking steps to develop and enhance our range.

COMMERCIAL BANKING

Commercial Banking has achieved excellent growth in its lending book. This is attributable to strict control over our mid-market portfolio and a proactive approach to fulfilling customers' needs. Because we have strengthened our relationships and delivered even better levels of service, we have been able to increase our share of our existing customers' business and have added new customers in our target segments.

During 2003, we have launched an innovative Islamic product, 'Tawarruq', for commercial businesses, which we are aggressively marketing to both existing and prospective customers.

Maximising our returns, particularly fee-based income, and maintaining the strength and credit quality of our business base have been our prime objectives. At the same time, we have made great strides in upgrading the skills and professionalism of our staff, concentrating on customer satisfaction, results orientation and operational efficiencies.

Given the growth potential of the mid-market and small business segments, we are in the process of establishing a Small Business Unit. This unit will concentrate on developing and proactively managing our existing business relationships and growing our customer base.

We believe that industry specialisation among our relationship managers is a key factor in meeting the needs of the mid-market segment. As a result we are providing these managers with the appropriate knowledge to meet our customers' specific needs more effectively and precisely.



**Best Overall
Fund Manager in
Saudi Arabia**

We believe that industry specialisation among our relationship managers is a key factor in meeting the needs of the mid-market segment. We are providing these managers with the appropriate knowledge to meet our customers' specific needs more effectively and precisely.



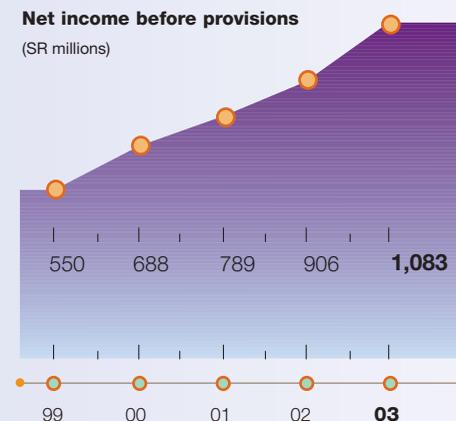


Our continuing and increasing participation in the Kingdom's development clearly demonstrates the professionalism and responsiveness we bring to everything we undertake.

Corporate Banking Highlights of the Year

- A A US\$595m key transaction with Saudi Aramco IPP project.
- A Strong growth in rise of high business volume.
- A Staff training cycle has focused on raising credit assessment skills.
- A Maintaining credit quality and portfolio diversification across customer and industry groups is a priority.

Net income before provisions
(SR millions)



Business Review

TREASURY

The Treasury Group has made solid progress over the year in the provision of an ever-improving service to our customers, which focuses on providing value and commitment to their financial well-being.

Our new state-of-the-art dealing room and system improvements are now delivering tangible benefits, enabling us to provide a superior service in structuring, pricing, execution and innovation throughout our entire product range. Success has been achieved in the provision of new Islamic products through structuring, as well as enhancing our delivery and expertise in the core products of foreign exchange, OTC options, term deposits and interest rate and commodity derivatives.

We have also launched automated SMS messaging for customers, giving them the ability to keep abreast of the latest economic data available with currency and commodity prices.

Another major impact on performance and performance measurement has been the introduction of improved risk management and reporting tools, enabling pro-active management of all balance sheet risks with real time positions and profitability reporting.

Through pro-active management we have built a solid and diversified investment portfolio, which, along with new customer delivery initiatives, and the money market, foreign exchange, options and derivatives management, has made a substantial contribution to the Bank's future increased profitability, despite the continuing low global interest rate environment.

INTERNET BANKING

Year on year, the Internet becomes more deeply embedded in the way our partners and customers conduct their business. During 2003, ANB has maintained its momentum and commitment in developing this powerful delivery channel through a combination of unrivalled service and a desire to gain the trust and satisfaction of our customers. This year, our achievements have been recognised by Global Finance magazine with their award of 'Best Internet Banking Provider for the Retail Market for 2002' – in Saudi Arabia.

INFORMATION TECHNOLOGY

Over the past year, Information Technology has been extending the systems supporting banking services and growth, improving its operational excellence, and increasing our continuity of service capabilities. A new Telemoney system is now offered in more centres and branches, as well as reaching more correspondent banks. Anti-money laundering checks have been implemented, and all branch systems updated with the SAMA-mandated account opening regulations. The Tadawul share trading service has been improved, with better dissemination of market prices. Our business continuity capability has been proven, with a full test of running all branches and ATMs from the disaster recovery centre. Excellent foundation work has started to convert all ATM, POS and card services to handle 'smartcards' (the SPAN2 kingdomwide initiative), and this will continue throughout next year.

CREDIT & RISK MANAGEMENT

ANB attaches considerable importance to increasing its capacity to identify, measure, monitor and control risks. An independent Risk Management Division, comprising Credit Risk, Market Risk and Operational Risk has been operating since 2001. This entity and the Credit Group make up the Credit & Risk Group.

Credit Risk is the risk that a customer or counterparty of the Bank will be unable, or unwilling, to meet the commitment into which it has entered with the Bank. Managing this risk not only enhances the portfolio management process, but allows us to monitor risk levels at a micro level and provide the tools with which to control adverse trends as and when required.

Market Risk occurs mainly in the Bank's treasury operations, trading activities and non-trading portfolio. These, in large measure, are due to volatility in interest and exchange rates or a decline in the liquidity of assets. The unit is responsible for identifying, measuring and controlling such exposure according to pre-determined criteria laid down by the Assets & Liabilities Committee. It also recommends the levels to be set and defines the ways and means to measure and reduce such exposure to an acceptable level.

Operational Risk arises largely as a result of unauthorised activities, fraud, error, inefficiencies, systems failures or other external factors. These are managed through contingency planning and a constant review of procedures, which, inevitably, include business continuity management and insurance programmes. To this end, we have launched a detailed risk profiling initiative to create an operational risk profile for each business unit and cost centre.



During 2003, ANB has maintained its momentum and commitment in developing this powerful delivery channel through a combination of unrivalled service and a desire to gain the trust and satisfaction of our customers.



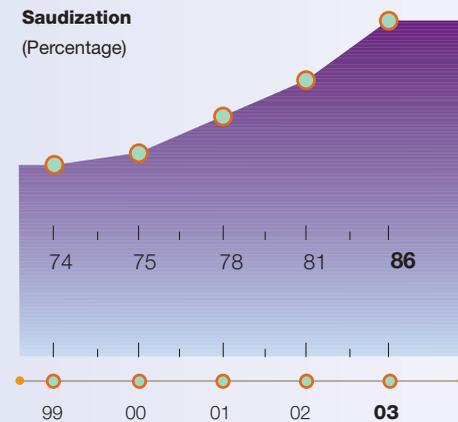


Our exclusive new range of private banking suites offer an attractive environment in which we provide a premium banking experience for high networth individuals.

Treasury Highlights of the Year

- Ⓐ New state-of-the-art dealing room system.
- Ⓐ Success has been achieved in providing new Islamic products.
- Ⓐ Launched the automated SMS messaging for customers.
- Ⓐ Improved risk management and reporting tools and diversified investment portfolio.

Saudization
(Percentage)



Business Review

CREDIT & RISK MANAGEMENT CONTINUED

The Credit Group has overall responsibility for the identification, assessment and mitigation of credit risk. It plays an important role in the growth of the loan portfolio through its involvement in the approval process and delivery, in a way that safeguards the Bank. Advanced computer systems are central to the automation of such processes and the operation of management information systems. A series of ongoing initiatives have been introduced, which will upgrade policies and procedures, enhance control mechanisms and accelerate response times. These include the risk rating of obligors, the streamlining of the credit process and the provision of training on such topics.

COMPLIANCE AND ANTI MONEY LAUNDERING CONTROL

For good Corporate Governance and to ensure strict compliance of ANB's activities with SAMA regulations, the Compliance and Anti Money Laundering (AML) Control team has issued Codes of Ethical Behaviour and undertaken several AML initiatives. Compliance Policies and Procedures for Account Opening based on new SAMA guidelines have been completed. Anti Money Laundering Awareness Training has been delivered to all bank employees .

ANB has allocated substantial resources to implement an automated software system for Transaction Monitoring. Projects for implementation of new SAMA Account Opening guidelines for new and existing customers and Automated Customer Transaction Profiling and Risking Rating System have been completed.

HUMAN RESOURCES & TRAINING

At the very centre of the Bank's operations is the need to train and retain a highly motivated, customer-focused and professional staff. In response to these challenges, we provide comprehensive training programmes targeted at all levels within the Bank. We recognise that our people are our most important asset and offer competitive compensation packages that recognise and reward performance.

Activities at our Training Centre have been concentrated in three areas in particular: increasing individual effectiveness, strengthening technical skills and accelerating career development. As part of this initiative, all branch personnel have undergone intensive training in customer service delivery, information technology and new product familiarisation. In particular, training on the latest developments in anti-money laundering procedures has been given to comply with SAMA's directives and guidelines.

Recruiting promising Saudis from high schools and universities is a continuing priority. By the end of 2003, the ratio of Saudi personnel to total employees stood at a record 86%. Our career development programme aims to develop our Saudi staff so they can, in time, assume even more senior and responsible positions within the Bank.

LONDON BRANCH

Against a backdrop of political and economic challenges, the branch has maintained high quality corporate and personal banking services, trade finance and treasury. This proactive approach has created exciting new opportunities in terms of our growing customer base. This is particularly true of our Saudi clients with business interests in the United Kingdom.

The trade finance team has continued to build up the volume and outreach of our business, both in terms of customer profile and geography. We now handle import business from other Saudi, GCC and Middle Eastern banks in addition to that of ANB's own customers. The London-based treasury business has grown too. We have also seen a strong rise in our corporate banking franchise, as European contractors become increasingly active in the Middle Eastern region, where we provide bonding and other related 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 21 million over the years.

CONCLUSION

The last five years have seen ANB transform itself, through sheer hard work and commitment, into a dynamic financial institution that is delivering tangible benefits to our customers and shareholders. With a highly motivated staff and management, confident in our abilities, we have a strong sense of purpose. The awards received this year and the increases in our credit ratings speak for themselves. We look forward to the future with confidence.



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