

# Independent Auditors' Report

## Bakr Abulkhair & Co.

Public Accountants  
P.O. Box 213, Riyadh 11411  
Kingdom of Saudi Arabia

Tel: + 966 (1) 4630018  
Fax: + 966 (1) 4630865

Head Office: Riyadh  
License No. 96

Member  
**Deloitte  
Touche  
Tohmatsu**



## ARTHUR ANDERSEN

Arthur Andersen & Co.  
Certified Public Accountants - Reg. No. 20

P.O. Box 18366  
Riyadh 11415  
Saudi Arabia

Tel. 01 478 7801  
Fax 01 477 3836

### INDEPENDENT AUDITORS' REPORT

**TO: THE SHAREHOLDERS OF  
ARAB NATIONAL BANK (SAUDI JOINT STOCK COMPANY)  
RIYADH, SAUDI ARABIA**

We have audited the statement of financial position of Arab National Bank as of December 31, 2001 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes. These financial statements, which have been derived from computerized accounting records maintained in Arabic in the Kingdom of Saudi Arabia, are the responsibility of the Bank's management and have been prepared in accordance with the provisions of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

- Present fairly, in all material respects, the financial position of Arab National Bank as of December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency and with International Accounting Standards.
- Comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association with respect to the preparation and presentation of financial statements.

BAKR ABULKHAIR & CO.



Bakr A. Abulkhair  
(License No. 101)

ARTHUR ANDERSEN & CO.



Arfan K. Ayass  
(License No. 98)

1 Dhu Al Qada 1422  
January 15, 2002



# Balance Sheet

As at December 31, 2001 and 2000

	Notes	2001 SAR'000	2000 SAR'000
<b>ASSETS</b>			
Cash and balances with SAMA	3	1,899,122	2,658,677
Due from banks and other financial institutions	4	2,814,998	3,231,543
Investments, net	5	19,251,151	16,375,263
Loans and advances, net	6	14,788,242	13,915,091
Other real estate		254,605	254,894
Fixed assets, net	7	279,763	283,204
Other assets	8	1,102,771	931,916
<b>Total assets</b>		<b>40,390,652</b>	<b>37,650,588</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	10	8,169,638	7,713,398
Customer deposits	11	26,272,500	24,926,515
Other liabilities	12	2,582,405	1,850,254
<b>Total liabilities</b>		<b>37,024,543</b>	<b>34,490,167</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	1,500,000	1,500,000
Statutory reserve	14	1,500,000	1,500,000
General reserve	14	300,000	155,000
Retained earnings		22,444	5,421
Other reserves	15	43,665	-
<b>Total shareholders' equity</b>		<b>3,366,109</b>	<b>3,160,421</b>
<b>Total liabilities and shareholders' equity</b>		<b>40,390,652</b>	<b>37,650,588</b>
<b>CONTRA ACCOUNTS</b>			
<b>2001: 42,059,141</b>	2000: 44,521,013		31

The accompanying notes form an integral part of these financial statements

# Statement of Income

For the year ended December 31, 2001 and 2000

	Notes	2001 SAR'000	2000 SAR'000
Special commission income	17	2,208,372	2,376,128
Special commission expense	17	934,654	1,261,138
<b>Net special commission income</b>		<b>1,273,718</b>	<b>1,114,990</b>
Fees from banking services		177,265	176,696
Exchange income		62,088	57,612
Trading income	18	4,703	-
Dividend income	19	1,067	54
Realised gains on investments, net		4,425	2,744
Other operating income		7,632	4,316
<b>Total operating income</b>		<b>1,530,898</b>	<b>1,356,412</b>
Salaries and employee related expenses		408,616	365,429
Rent and premises related expenses		37,819	39,394
Depreciation and amortization	7	63,807	66,463
Other general and administrative expenses		231,976	197,062
Provision for possible credit losses and bad debts	6	302,526	283,102
<b>Total operating expenses</b>		<b>1,044,744</b>	<b>951,450</b>
<b>Net income</b>		<b>486,154</b>	<b>404,962</b>
<b>Weighted average number of outstanding shares</b>	20	<b>30,000</b>	30,000
<b>Earnings per share (in SAR)</b>	20	<b>16.21</b>	13.50

The accompanying notes form an integral part of these financial statements



# Statement of Changes in Shareholders' Equity

For the year ended December 31, 2001 and 2000

	Notes	Share Capital SAR'000	Statutory Reserve SAR'000	General Reserve SAR'000	Retained Earnings SAR'000	Other Reserves SAR'000	Total SAR'000
<b>2001</b>							
Balance as at January 1, 2001		1,500,000	1,500,000	155,000	5,421	-	3,160,421
Effect of implementation of IAS 39 at January 1, 2001	2b	-	-	-	18,080	-	18,080
Net income		-	-	-	486,154	-	486,154
Transfer to general reserve	14	-	-	145,000	(145,000)	-	-
Proposed gross dividend	21	-	-	-	(342,522)	-	(342,522)
Other reserves – net movement	15	-	-	-	311	43,665	43,976
<b>Balance as at December 31, 2001</b>		<b>1,500,000</b>	<b>1,500,000</b>	<b>300,000</b>	<b>22,444</b>	<b>43,665</b>	<b>3,366,109</b>
<b>2000</b>							
Balance as at January 1, 2000		1,500,000	1,483,000	80,000	2,705	-	3,065,705
Net income		-	-	-	404,962	-	404,962
Transfer to statutory reserve	14	-	17,000	-	(17,000)	-	-
Transfer to general reserve	14	-	-	75,000	(75,000)	-	-
Proposed gross dividend	21	-	-	-	(310,246)	-	(310,246)
<b>Balance as at December 31, 2000</b>		<b>1,500,000</b>	<b>1,500,000</b>	<b>155,000</b>	<b>5,421</b>	<b>-</b>	<b>3,160,421</b>

The accompanying notes form an integral part of these financial statements

# Statement of Cash Flows

For the year ended December 31, 2001 and 2000

	Notes	2001 SAR'000	2000 SAR'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Net income</b>		<b>486,154</b>	404,962
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Accretion of discounts and amortization of premium on investments, net		6,857	(5,238)
Gains on investments		(4,425)	(2,744)
Depreciation and amortization		63,807	66,463
Losses on disposal of fixed assets and other real estate		172	5,160
Provision for possible credit losses and bad debts		302,526	283,102
		<b>855,091</b>	751,705
<b>Net (increase) decrease in operating assets:</b>			
Due from banks and other financial institutions		416,545	2,079,160
Loans and advances		(1,175,677)	(1,292,126)
Other real estate		150	12,961
Other assets		(170,855)	(157,021)
<b>Net increase in operating liabilities:</b>			
Due to banks and other financial institutions		456,240	888,285
Customer deposits		1,345,985	482,745
Other liabilities		760,692	707,904
<b>Net cash from operating activities</b>		<b>2,488,171</b>	3,473,613
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of investments		(5,968,101)	(6,636,940)
Proceeds from matured/sale of investments		3,089,781	4,335,639
Purchase of fixed assets		(60,689)	(52,275)
Proceeds from sale of fixed assets		290	814
<b>Net cash used in investing activities</b>		<b>(2,938,719)</b>	(2,352,762)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid		(309,007)	(245,916)
<b>Net cash used in financing activities</b>		<b>(309,007)</b>	(245,916)
Net (decrease) increase in cash and balances with SAMA		(759,555)	874,935
Cash and balances with SAMA at the beginning of the year		2,658,677	1,783,742
<b>Cash and balances with SAMA at the end of the year</b>	3	<b>1,899,122</b>	2,658,677

The accompanying notes form an integral part of these financial statements



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 1. GENERAL

Arab National Bank (a Saudi Joint Stock Company) was formed pursuant to Royal Decree No. M/38 dated 18/7/1399H (June 13, 1979G). The Bank commenced business on February 2, 1980, when it took over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under commercial registration no. 1010027912 dated 1/3/1400H (January 19, 1980G) through a network of 116 branches in the Kingdom of Saudi Arabia employing 1,940 employees (2000: 1,863 employees) and one branch in the United Kingdom. The Bank's Head Office is located at the following address:

Arab National Bank  
Head Office  
P.O. Box 56921  
Riyadh 11564, Saudi Arabia

The objectives of the Bank are to provide a full range of banking services.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### a) Basis of presentation

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

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, trading and available for sale investment securities. In addition, as explained fully in related notes, assets and liabilities that are hedged (in fair value hedging relationship) are carried at fair value to the extent of risk being hedged.

### b) Change in accounting policies

Effective January 1, 2001, the Bank implemented International Accounting Standard No. 39 Financial Instruments: Recognition and Measurement. This has resulted in the following principal changes to the accounting policies of the Bank in respect of recognition and measurement of certain financial instruments:

#### (i) Derivative financial instruments

Effective January 1, 2001, the Bank has recognized all derivative financial instruments in its balance sheet as either assets or liabilities at their fair values and accordingly, the notional amounts of such derivatives are no longer reported under commitments and contingencies. All opening fair value adjustments have been made against retained earnings on January 1, 2001 except those relating to cash flow hedges which have been taken to other reserves. Subsequent changes in fair value relating to cash flow hedges have been taken to other reserves.

#### (ii) Non-derivative financial instruments

Effective January 1, 2001, the Bank reclassified its investments as "originated debt securities", "held to maturity" or "available for sale" investments and re-measured to fair value those classified as available for sale. On January 1, 2001, the adjustments relating to the re-measurement of the available for sale securities to fair value have been made against

retained earnings. Subsequent changes in fair value relating to available for sale securities have been taken to other reserves.

In addition, impaired loans and advances are now stated at the net present value of their estimated future cash flows by reference to their original commission rates.

#### (iii) Comparative amounts

In accordance with the transitional provisions of IAS 39, the Bank has not restated comparative amounts.

The bank has changed its accounting policy with respect to the recognition of customers' acceptances and now includes them in off-balance sheet items. Previously these were included in other assets and other liabilities. Comparative amounts have been restated to reflect this change in accounting policy.

### c) Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the entity commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### d) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in assets where the fair value is positive and in liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to income for the period disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or a forecasted transaction / firm commitment that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective throughout the hedge period, i.e., the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

to fair value is recognized immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognized in the statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of an asset or a liability, then at the time the asset or liability is recognized the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the statement of income for the period.

## e) Foreign currencies

The financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date.

Realized and unrealized gains or losses on exchange are credited or charged to operating income.

## f) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts or when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## g) Revenue recognition

Special commission income and expense are recognized in the income statement on the accrual basis and include premiums and discounts amortized. Fees and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared.

## h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for trading, originated debt securities, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet as investments, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in cash and balances with SAMA, due from banks and other financial institutions or loans and advances, as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement.

## i) Investments

All investment securities are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Premiums and discounts are amortized on a systematic basis to their maturity and are taken to special commission income.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

### (i) Trading securities

Securities, which are held for trading, are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises.

### (ii) Originated debt securities

Securities, which are purchased directly from the issuer other than those purchased with the intent to be sold immediately or in the short term are classified as originated debt securities. Originated debt securities whose fair value has not been hedged are stated at amortized cost, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognised or impaired.

### (iii) Held to maturity

Investments which have fixed or determinable payments which are intended to be held to maturity; are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognised or impaired.



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## **(iv) Available for sale**

Investments which are classified as "available for sale" are subsequently measured at fair value. For available for sale Investments whose fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in other reserves under shareholders' equity until the investment is derecognised or impaired, at which time cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

Available for sale investments whose fair value cannot be reliably measured are carried at amortized cost.

## **j) Loans and advances**

All loans and advances are initially measured at cost.

Loans and advances, which are held for trading, are subsequently measured at fair value and gains or losses arising from changes in fair value are included in the statement of income in the period in which they arise.

Loans and advances originated by the bank for which fair value has not been hedged and acquired loans that are to be held to maturity are stated at cost less any amount written off and provisions for impairment.

Loans and advances, which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in other reserves under shareholders' equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

The provision for possible credit losses is based upon the management's assessment of the adequacy of the provision on a periodic basis. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances.

For presentation purposes, provision for possible credit losses is deducted from loans and advances to customers.

## **k) Impairment of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised for changes in its carrying amounts as follows:

For financial assets at amortized cost - the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and

For financial assets at fair value - where a loss has been recognized directly under shareholders' equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in shareholders' equity is transferred to the statement of income.

Once a financial asset has been written down to its estimated recoverable amount, commission income is thereafter recognized based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

## **l) Other real estate**

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is stated at the lower of net realizable value of due loans and advances or the current fair value of the related properties.

Gains or losses on disposal and unrealized losses on revaluation of other real estate are credited or charged to operating income.

## **m) Fixed assets**

Fixed assets are stated at cost net of accumulated depreciation and amortization.

Free hold land is not depreciated. The cost of other fixed assets is depreciated and amortized using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 5-10 years, whichever is shorter
Furniture, equipment and vehicles	2.5 -5 years

## **n) Deposits**

All money market and customer deposits are initially recognized at cost, being the fair value of the consideration received. Subsequently all commission bearing deposits other than held for trading or whose fair value have been hedged are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortized on a systematic basis to maturity and taken to special commission expense. For deposits carried at amortized cost (which are not part of hedging relationship) any gain or loss is recognized in the statement of income when deposits is derecognised or impaired.

Deposits, which are held for trading, are subsequently measured at fair value and any gain or loss from a change in fair value is included in the statement of income in the period in which it arises.

## **o) Accounting for leases**

**i) Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.**

When an operating lease is terminated before the lease has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

**ii) When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable and disclosed under loans and advances. The difference between the gross receivables and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflect a constant periodic rate of return.**

## **p) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with SAMA.

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 3. CASH AND BALANCES WITH SAMA

	2001	2000
Cash in hand	324,014	490,800
Statutory deposit	1,052,061	909,549
Reverse Repo	519,968	1,255,765
Other balances	3,079	2,563
<b>Total</b>	<b>1,899,122</b>	<b>2,658,677</b>

In accordance with the Banking Control Regulations, the Bank is required to maintain a statutory deposit with the Saudi Arabian Monetary Agency (SAMA) at stipulated percentages of its demand, time and other deposits, calculated at the end of each month.

## 4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2001	2000
Current accounts	186,608	324,276
Money market placements	2,628,390	2,907,267
<b>Total</b>	<b>2,814,998</b>	<b>3,231,543</b>

## 5. INVESTMENTS, NET

### i) Originated debt securities

	2001
Fixed rate securities	9,116,276
Floating rate notes	3,556,272
<b>Total</b>	<b>12,672,548</b>

### ii) Held to maturity

	2001
Fixed rate securities	2,821,407
Floating rate notes	125,000
<b>Total</b>	<b>2,946,407</b>

### iii) Available for sale

	2001
Fixed rate instruments	2,766,401
Floating rate notes	535,539
Equities	12,777
Other	317,479
<b>Total</b>	<b>3,632,196</b>
<b>Investments, net</b>	<b>19,251,151</b>
Investments, net for the year 2000	16,375,263

Equities reported under available for sale investments include unquoted shares for SAR 6 million that are carried at cost as their fair value cannot be reliably measured.

The fair value of the originated debt securities and the investments held to maturity, as at December 31, 2001 was SAR 12,800 million and SAR 3,045 million, respectively.

As at December 31, 2001 the cost of available for sale investments was SAR 3,512 million.

The fair value of the investment in aggregate as at December 31, 2000 was SAR 16,514 million

Retained earnings as at December 31, 2001 includes SAR 22.2 million (2000: Nil) relating to available for sale investments due to effect of implementation of IAS39, which will be transferred to statement of income upon realisation.

## 6. LOANS AND ADVANCES, NET

### a) Originated loans and advances

These are comprised of the following:

	2001
Performing:	
Overdrafts	1,211,094
Credit cards	69,300
Commercial loans	7,549,039
Consumer loans	4,225,423
Other	110,509
<b>Performing loans and advances, gross</b>	<b>13,165,365</b>
<b>Non-performing loans and advances, net</b>	<b>1,137,208</b>

Provision for possible credit losses (938,305)

**Originated loans and advances, net 13,364,268**

### b) Held to maturity loans and advances

Performing commercial loans 1,423,974

**Total loans and advances 14,788,242**

Total loans and advances, net for the year 2000 13,915,091

Non-performing loans and advances are disclosed net of accumulated commission in suspense of SAR 466.4 million as at December 31, 2001

As at December 31, 2000 the net non-performing loans and advances was SAR 1,223 million after netting accumulated commission in suspense of SAR 594 million.

### c) Movements in provision for possible credit losses are as follows:

	2001	2000
Balance, beginning of the year	911,411	742,611
Provided during the year	302,526	283,102
Bad debts written off	(275,632)	(114,302)
<b>Balance, end of the year</b>	<b>938,305</b>	<b>911,411</b>

### d) Economic sector risk concentrations for the loans and advances prior to provision for possible credit losses are as follows:

	2001	2000
1. Government and Quasi Government	3,641,383	3,296,859
2. Banks and financial institutions	1,457,064	1,222,205
3. Agriculture & Fishing	238,544	234,797
4. Manufacturing	636,662	1,034,098
5. Mining & Quarrying	232,439	47,888
6. Elec., Water, Gas & Health Services	36,677	31,370
7. Building and Construction	1,383,745	2,287,118
8. Commerce	2,493,156	2,498,835
9. Transportation & Communication	33,395	21,064
10. Services	304,988	346,600
11. Personal	4,432,003	2,942,498
12. Other	836,491	1,457,068
13. Interest in suspense	-	(593,598)
<b>Loans and advances</b>	<b>15,726,547</b>	<b>14,826,802</b>



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 7. FIXED ASSETS, NET

	Land & buildings	Leasehold improvements	Furniture equipment & vehicles	Total
<b>Cost</b>				
As at January 1, 2001	259,378	111,714	473,893	844,985
Additions	-	11,947	48,742	60,689
Disposals / write-off of retired assets	-	(3,551)	(165,366)	(168,917)
<b>As at December 31, 2001</b>	<b>259,378</b>	<b>120,110</b>	<b>357,269</b>	<b>736,757</b>
<b>Accumulated depreciation</b>				
As at January 1, 2001	114,611	59,130	388,040	561,781
Charge for the year	4,590	17,109	42,108	63,807
Disposals / write-off of retired assets	-	(3,551)	(165,043)	(168,594)
<b>As at December 31, 2001</b>	<b>119,201</b>	<b>72,688</b>	<b>265,105</b>	<b>456,994</b>
<b>Net book value</b>				
As at 31 December 2001	140,177	47,422	92,164	279,763
As at 31 December 2000	144,767	52,584	85,853	283,204

## 8. OTHER ASSETS

	2001	2000
Accrued commission income	564,053	646,387
Fair value of derivatives (Note 9)	256,097	-
Other	282,621	285,529
<b>Total</b>	<b>1,102,771</b>	<b>931,916</b>

## 9. DERIVATIVES

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

**Swaps:** are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

**Forwards and futures:** are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

**Forward rate agreements:** are individually negotiated commission rate futures that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

**Options:** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

### Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

### Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

Notional amounts by term to maturity 2001							
	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	1-5 years	Over 5 years
<b>Derivatives held for trading:</b>							
Commission rate swaps	67,260	60,267	3,148,750	1,200,750	18,750	1,929,250	-
Forward foreign exchange contracts	124,400	46,185	14,329,790	8,384,433	5,945,357	-	-
Currency options	51,648	51,648	6,233,704	3,845,340	2,388,364	-	-
<b>Derivatives held as fair value hedges:</b>							
Commission rate swaps	12,789	80,828	6,599,936	1,600,000	3,685,000	1,078,697	236,239
<b>Derivatives held as cash flow hedges:</b>							
Commission rate swaps	-	-	352,500	-	-	352,500	-
<b>Total</b>	<b>256,097</b>	<b>238,928</b>	<b>30,664,680</b>	<b>15,030,523</b>	<b>12,037,471</b>	<b>3,360,447</b>	<b>236,239</b>

The table below shows the notional amounts analyzed by the term to maturity.

Notional amounts by term to maturity 2000						
	Notional amount				Over 5 years	
	Total	Within 3 months	3-12 months	1-5 years	years	
Commission rate swaps	15,863,201	5,127,220	7,964,401	2,736,588	34,992	
Forward foreign exchange contracts	13,629,255	9,288,647	4,264,662	75,946	-	
Currency options	2,215,149	1,499,182	715,967	-	-	
<b>Total</b>	<b>31,707,605</b>	<b>15,915,049</b>	<b>12,945,030</b>	<b>2,812,534</b>	<b>34,992</b>	

The table below shows a summary of hedged items as at December 31, 2001, the nature of the risk being hedged, the hedging instrument and its fair value.

Description of hedged items	Fair Value	Cost	Risk	Hedging Instrument	Positive fair value	Negative fair value
Fixed commission rate investments	4,966,258	4,855,008	Fair value	Commission rate swap	2,114	73,613
Floating commission rate investments	352,500	352,500	Cash flow	Commission rate swap	-	-
Fixed commission rate loans	644,678	637,500	Fair value	Commission rate swap	36	7,215
Fixed commission rate deposits	1,138,139	1,127,500	Fair value	Commission rate swap	10,639	-

Approximately 54.6 % of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 13.7 % of the positive fair value contracts are with any one individual counterparty at the balance sheet date.



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2001	2000
Current accounts	100,399	279,371
Money market deposits	8,069,239	7,434,027
<b>Total</b>	<b>8,169,638</b>	<b>7,713,398</b>

## 11. CUSTOMER DEPOSITS

	2001	2000
Demand	10,580,769	9,679,657
Saving	142,735	155,668
Time	10,761,327	10,748,833
Other	4,787,669	4,342,357
<b>Total</b>	<b>26,272,500</b>	<b>24,926,515</b>

Other deposits include deposits against sale of fixed rate bonds of SAR 3,381 million (2000: SAR 2,813 million) with agreement to repurchase the same at fixed future dates. Furthermore, other deposits includes SAR 969 million (2000: SAR 1,009 million) of margins held for customer commitments.

## 12. OTHER LIABILITIES

	2001	2000
Accrued commission expense	106,183	75,296
Fair value of derivatives (Note 9)	238,928	-
Proposed gross dividend	342,522	310,246
Unearned discounts	921,328	704,668
Other	973,444	760,044
<b>Total</b>	<b>2,582,405</b>	<b>1,850,254</b>

## 13. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 30 million shares of SAR 50 each (2000: 30 million). The ownership of the Bank's share capital is as follows:

	2001	2000
Saudi shareholders	60%	60%
Arab Bank PLC / Jordan	40%	40%

The Board of Directors has recommended an increase in share capital from SAR 1,500 million to SAR 1,800 million by issuing one bonus share for each five shares held. Accordingly, the outstanding shares will increase to 36 million shares.

## 14. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Regulations and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. As statutory reserve is equal to paid up capital, no transfer was made during 2001 (2000: SAR 17 million). Statutory reserve is not available for distribution.

In addition the Bank makes an appropriation to a general reserve for general banking risks. The board of Directors proposed to transfer SAR 145 million from 2001 net income to general reserves (2000: SAR 75 million)

## 15. OTHER RESERVES

	Cash flow hedges	Available for sale Investments	Total
Balance as at January 1, 2001	-	-	-
Effect of implementation of IAS39 at January 1, 2001	-	-	-
Net change in fair value	-	43,976	43,976
Transfer to statement of income	-	(311)	(311)
<b>Balance as at December 31, 2001</b>	<b>-</b>	<b>43,665</b>	<b>43,665</b>

## 16. COMMITMENTS AND CONTINGENCIES

### a) Legal proceedings

As at December 31, 2001 there were 13 legal proceedings outstanding against the Bank. No significant provision was required based on professional advice which indicates that it is unlikely that any significant loss will eventuate.

### b) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

Commitments to extend credit represent unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

The maturity structure for the Bank's commitments and contingencies were as follows.

	2001				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees, letters of credit and acceptances	2,799,946	1,503,532	634,668	17,536	4,955,682
Commitments to extend credit	2,287,219	2,297,202	29,690	-	4,614,111
Other	-	-	661,583	1,163,085	1,824,668
<b>Total</b>	<b>5,087,165</b>	<b>3,800,734</b>	<b>1,325,941</b>	<b>1,180,621</b>	<b>11,394,461</b>

	2000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees, letters of credit and acceptances	2,807,988	1,523,708	887,880	-	5,219,576
Commitments to extend credit	935,071	4,252,629	1,303	-	5,189,003
Other	4,565	16,065	2,384,199	-	2,404,829
<b>Total</b>	<b>3,747,624</b>	<b>5,792,402</b>	<b>3,273,382</b>	<b>-</b>	<b>12,813,408</b>

The unused portion of non-firm commitments which can be revoked at any time outstanding as at December 31, 2001 was SAR 943.7 million.

## c) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Bank is the lessee are as follows:

	2001	2000
Less than 1 year	25,118	25,108
1 to 5 years	42,209	46,908
Over 5 years	1,263	1,482
<b>Total</b>	<b>68,590</b>	<b>73,498</b>

## 17. NET SPECIAL COMMISSION INCOME

	2001
<b>Special commission income</b>	
Bank placements	148,406
Originated debt securities	639,837
Held to maturity investments	208,012
Available for sale investments	121,473
Loans and advances	1,090,406
Other	238
<b>Total</b>	<b>2,208,372</b>

## Special commission expense

Bank deposits	286,426
Customer deposits	646,006
Other	2,222
<b>Total</b>	<b>934,654</b>

## 18. TRADING INCOME

	2001
Derivatives	4,703

## 19. DIVIDEND INCOME

	2001
Available for sale investments	1,067

## 20. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year.

## 21. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

i) The proposed gross dividend for the year 2001 is SAR 342.5 million (2000: SAR. 310.2 million) included in other liabilities. The Zakat attributable to Saudi Shareholders for the year amounted to SAR 7.5 million (2000: SAR 6.1 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholder of SAR 11 per share (2000: SAR 10 per share).

ii) Under the provisions of the Ministry of Finance and National Economy Decree No. 3/918 dated 20/5/1412H (26/11/1991G) as subsequently amended by Decree No. 3/1399 dated 27/5/1413H (23/10/1992 G), the income tax payable on the current year's share of income is SAR 60 million (2000: SAR 49.1 million) restricted to 75% of its share of cash dividend for the year. Any income tax liability in excess of 75% of the share of dividend will be carried forward and settled in the future in accordance with the above mentioned limit

The share of dividend of Arab Bank PLC will be paid after deducting the related taxes due as described above.



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 22. BUSINESS SEGMENTS

For management purpose the Bank is organized into three major business segments:

### Retail Banking

Deposit, credit and investment product for individuals, small to medium sized business and London Branch.

### Corporate Banking

Loans and other credit products for corporate and institutional customers.

### Treasury

Manages the Bank's trading and investment portfolios and the Bank's liquidity, currency and commission rate risk.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

The Bank's primary business is conducted in Saudi Arabia with one international branch. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Bank's overall financial statements.

The Bank's total assets and liabilities and its income from operations and net income for the period end by business segment are as follows:

2001				
	Retail banking	Corporate banking	Treasury	Total
Total assets	7,909,550	9,424,455	23,056,647	40,390,652
Total liabilities	17,199,395	1,108,472	18,716,676	37,024,543
Total operating income	1,164,022	232,927	133,949	1,530,898
Net income	275,366	111,193	99,595	486,154

2000				
	Retail banking	Corporate banking	Treasury	Total
Total assets	7,447,804	8,992,662	21,210,122	37,650,588
Total liabilities	17,172,503	1,325,653	15,992,011	34,490,167
Total operating income	1,024,565	227,460	104,387	1,356,412
Net income	237,603	93,099	74,260	404,962

## 23. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

The bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

The debt instruments included in investment portfolio are mainly sovereign risk. For details of the composition of the loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments & contingencies in note 16.

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 24. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES AND COMMITMENTS & CONTINGENCIES

The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies was as follows:

	2001						Total
	Saudi Arabia	GCC & Middle East	Europe	North America	South East Asia	Other Countries	
<b>Assets</b>							
Cash and balances with SAMA	1,897,143	-	1,581	398	-	-	1,899,122
Due from banks and other financial institutions	607,064	1,222,829	742,554	32,246	170,241	40,064	2,814,998
Investments, net	15,769,765	285,789	816,873	2,359,783	-	18,941	19,251,151
Loans and advances, net	12,538,108	1,212,641	1,005,745	26,998	496	4,254	14,788,242
<b>Total assets</b>	<b>30,812,080</b>	<b>2,721,259</b>	<b>2,566,753</b>	<b>2,419,425</b>	<b>170,737</b>	<b>63,259</b>	<b>38,753,513</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	4,168,053	3,272,351	704,871	2,492	20,383	1,488	8,169,638
Customer deposits	26,073,790	52,314	26,629	991	2,246	116,530	26,272,500
<b>Total liabilities</b>	<b>30,241,843</b>	<b>3,324,665</b>	<b>731,500</b>	<b>3,483</b>	<b>22,629</b>	<b>118,018</b>	<b>34,442,138</b>
<b>Commitments and contingencies</b>	<b>11,389,899</b>	<b>566</b>	<b>2,790</b>	<b>404</b>	<b>485</b>	<b>317</b>	<b>11,394,461</b>

	2000						Total
	Saudi Arabia	GCC & Middle East	Europe	North America	South East Asia	Other Countries	
<b>Assets</b>							
Cash and balances with SAMA	2,657,363	-	1,277	37	-	-	2,658,677
Due from banks and other financial institutions	1,473,751	231,650	1,093,728	75,033	357,381	-	3,231,543
Investments, net	15,052,194	98,307	260,201	945,620	-	18,941	16,375,263
Loans and advances, net	12,169,207	1,193,189	530,247	18,483	-	3,965	13,915,091
<b>Total assets</b>	<b>31,352,515</b>	<b>1,523,146</b>	<b>1,885,453</b>	<b>1,039,173</b>	<b>357,381</b>	<b>22,906</b>	<b>36,180,574</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	3,322,205	2,150,371	1,690,498	331,058	219,266	-	7,713,398
Customer deposits	24,716,636	44,245	41,149	888	1,306	122,291	24,926,515
<b>Total liabilities</b>	<b>28,038,841</b>	<b>2,194,616</b>	<b>1,731,647</b>	<b>331,946</b>	<b>220,572</b>	<b>122,291</b>	<b>32,639,913</b>
<b>Commitments and contingencies</b>	<b>10,397,169</b>	<b>319,283</b>	<b>1,071,109</b>	<b>208,054</b>	<b>501,957</b>	<b>315,836</b>	<b>12,813,408</b>

Balances shown in due from and due to banks and other financial institutions under Saudi Arabia include money market loans SAR 625 million (2000: SAR Nil million) and deposits SAR 1,047 million (2000: SAR 145 million) respectively on account of foreign branches of local banks.



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 25. CURRENCY RISK

The Bank takes on exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank had the following significant net exposures denominated in foreign currencies:

	2001 Long (short)	2000 Long (short)
US Dollar	(254,298)	975,809
Euro	241,174	(169,429)
Pound Sterling	(177)	(4,563)
Other	(163,950)	(59,362)

## 26. COMMISSION RATE RISK

### Commission sensitivity of assets, liabilities and off balance sheet items

The Bank is exposed to various risk associated with the effect of fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	2001						
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-Commission Bearing	Total	Effective rate
<b>Assets</b>							
Cash and balances with SAMA	519,958	-	-	-	1,379,164	1,899,122	2.25%
Due from banks and other financial institutions	2,595,961	26,818	-	-	192,219	2,814,998	1.90%
Investments, net	5,219,123	4,994,757	6,149,207	2,415,000	473,064	19,251,151	5.59%
Loans and advances, net	7,496,144	3,599,774	3,325,019	21,638	345,667	14,788,242	6.71%
Other real estate	-	-	-	-	254,605	254,605	
Fixed assets, net	-	-	-	-	279,763	279,763	
Other assets	-	-	-	-	1,102,771	1,102,771	
<b>Total assets</b>	<b>15,831,186</b>	<b>8,621,349</b>	<b>9,474,226</b>	<b>2,436,638</b>	<b>4,027,253</b>	<b>40,390,652</b>	
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions	6,380,884	1,657,010	-	-	131,744	8,169,638	2.61%
Customer deposits	10,012,082	4,253,018	291,878	-	11,715,522	26,272,500	2.79%
Other liabilities	-	-	-	-	2,582,405	2,582,405	
Shareholders' equity	-	-	-	-	3,366,109	3,366,109	
<b>Total Liabilities and shareholders' equity</b>	<b>16,392,966</b>	<b>5,910,028</b>	<b>291,878</b>	<b>-</b>	<b>17,795,780</b>	<b>40,390,652</b>	
<b>On balance sheet gap</b>	<b>(561,780)</b>	<b>2,711,321</b>	<b>9,182,348</b>	<b>2,436,638</b>	<b>(13,768,527)</b>	<b>-</b>	
<b>Off balance sheet gap</b>	<b>2,685,686</b>	<b>(1,752,500)</b>	<b>(696,947)</b>	<b>(236,239)</b>	<b>-</b>	<b>-</b>	
<b>Total commission rate sensitivity gap</b>	<b>2,123,906</b>	<b>958,821</b>	<b>8,485,401</b>	<b>2,200,399</b>	<b>(13,768,527)</b>	<b>-</b>	
<b>Cumulative commission rate sensitivity gap</b>	<b>2,123,906</b>	<b>3,082,727</b>	<b>11,568,128</b>	<b>13,768,527</b>	<b>-</b>	<b>-</b>	

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

	2000					Total	Effective rate
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-Commission Bearing		
<b>Assets</b>							
Cash and balances with SAMA	1,255,765	-	-	-	1,402,912	2,658,677	6.75%
Due from banks and other financial institutions	2,904,267	3,000	-	-	324,276	3,231,543	6.65%
Investments, net	5,888,502	938,196	8,480,169	1,046,358	22,038	16,375,263	7.02%
Loans and advances, net	8,597,404	2,422,022	2,412,495	23,189	459,981	13,915,091	8.71%
Other real estate	-	-	-	-	254,894	254,894	
Fixed assets, net	-	-	-	-	283,204	283,204	
Other assets	-	-	-	-	931,916	931,916	
<b>Total assets</b>	<b>18,645,938</b>	<b>3,363,218</b>	<b>10,892,664</b>	<b>1,069,547</b>	<b>3,679,221</b>	<b>37,650,588</b>	
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions	5,803,382	1,503,396	-	-	406,620	7,713,398	6.89%
Customer deposits	9,176,368	4,598,968	233,207	-	10,917,972	24,926,515	6.56%
Other liabilities	-	-	-	-	1,850,254	1,850,254	
Shareholders' equity	-	-	-	-	3,160,421	3,160,421	
<b>Total Liabilities and shareholders' equity</b>	<b>14,979,750</b>	<b>6,102,364</b>	<b>233,207</b>	<b>-</b>	<b>16,335,267</b>	<b>37,650,588</b>	
On balance sheet gap	3,666,188	(2,739,146)	10,659,457	1,069,547	(12,656,046)	-	
Off balance sheet gap	(1,699,660)	1,823,904	(124,244)	-	-	-	
<b>Total commission rate sensitivity gap</b>	<b>1,966,528</b>	<b>(915,242)</b>	<b>10,535,213</b>	<b>1,069,547</b>	<b>(12,656,046)</b>	<b>-</b>	
Cumulative commission rate sensitivity gap	1,966,528	1,051,286	11,586,499	12,656,046	-	-	

The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, which are used to manage the commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.



# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 27. LIQUIDITY RISK

Liquidity Risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarizes the maturity profile of the bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

The maturity profile of the assets and liabilities was as follows:

	2001					
	Within 3 months	3-12 months	1-5 years	Over 5 Years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA	519,958	-	-	-	1,379,164	1,899,122
Due from banks and other financial institutions	2,595,961	26,818	-	-	192,219	2,814,998
Investments, net	2,144,524	4,654,603	9,002,442	2,976,518	473,064	19,251,151
Loans and advances, net	4,043,872	2,174,490	6,210,038	728,084	1,631,758	14,788,242
Other real estate	-	-	-	-	254,605	254,605
Fixed assets, net	-	-	-	-	279,763	279,763
Other assets	-	-	-	-	1,102,771	1,102,771
<b>Total assets</b>	<b>9,304,315</b>	<b>6,855,911</b>	<b>15,212,480</b>	<b>3,704,602</b>	<b>5,313,344</b>	<b>40,390,652</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	6,380,884	1,657,010	-	-	131,744	8,169,638
Customer deposits	10,012,082	4,253,018	291,878	-	11,715,522	26,272,500
Other liabilities	-	-	-	-	2,582,405	2,582,405
Shareholders' equity	-	-	-	-	3,366,109	3,366,109
<b>Total liabilities and shareholders' equity</b>	<b>16,392,966</b>	<b>5,910,028</b>	<b>291,878</b>	<b>-</b>	<b>17,795,780</b>	<b>40,390,652</b>

	2000					
	Within 3 months	3-12 months	1-5 years	Over 5 Years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA	1,256,722	-	-	-	1,401,955	2,658,677
Due from banks and other financial institutions	2,903,309	3,000	-	-	325,234	3,231,543
Investments, net	2,126,148	826,983	10,461,173	2,928,879	32,080	16,375,263
Loans and advances, net	4,271,814	1,710,094	4,822,185	825,816	2,285,182	13,915,091
Other real estate	-	-	-	-	254,894	254,894
Fixed assets, net	-	-	-	-	283,204	283,204
Other assets	-	-	-	-	931,916	931,916
<b>Total assets</b>	<b>10,557,993</b>	<b>2,540,077</b>	<b>15,283,358</b>	<b>3,754,695</b>	<b>5,514,465</b>	<b>37,650,588</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	5,803,382	1,503,396	-	-	406,620	7,713,398
Customer deposits	9,176,368	4,598,968	233,207	-	10,917,972	24,926,515
Other liabilities	-	-	-	-	1,850,254	1,850,254
Shareholders' equity	-	-	-	-	3,160,421	3,160,421
<b>Total liabilities and shareholders' equity</b>	<b>14,979,750</b>	<b>6,102,364</b>	<b>233,207</b>	<b>-</b>	<b>16,335,267</b>	<b>37,650,588</b>

# Notes to the Financial Statements

For the years ended December 31, 2001 and 2000

(Saudi Riyals in Thousands)

## 28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently difference can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for originated debt securities, held to maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair value of the originated debt securities and investments held to maturity is based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. Fair value of these Investments is disclosed in note 5. It is not practical to determine the fair value of loans and advances and customer deposits with sufficient reliability.

## 29. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the board the related party transactions are performed on an arms-length basis. The balances resulting from such transactions are as follows:

	2001	2000
<b>Arab Bank PLC</b>		
Due from banks and other financial institutions	1,034,881	789,307
Due to banks and other financial institutions	697,524	1,649,198
Commitments and contingencies	666,221	396,421
<b>Directors, other major shareholders' and their affiliates:</b>		
Loans and advances	408,262	342,168
Customer deposits	192,313	193,525
Commitments and contingencies	192,322	259,847
Directors' remuneration	1,882	1,794
<b>Bank's mutual funds:</b>		
Investments	82,099	10,042
Customer deposits	21,667	58,648

Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2001	2000
Special commission income	57,083	28,911
Special commission expense	43,638	15,827
Fee from banking services	15,932	19,454

## 30. CAPITAL ADEQUACY

The Bank monitors the adequacy of its regulatory capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible regulatory capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

	Regulatory Capital		Ratio %	
	2001	2000	2001	2000
Tier 1	3,176,482	3,065,705	16	16
Tier 1 + Tier 2	3,662,636	3,470,667	19	18

## 31. CONTRA ACCOUNTS

	2001	2000
Guarantees, letters of credit and acceptances	4,955,682	5,219,576
Commission rate swaps	10,101,186	15,863,201
Foreign exchange contracts		
Spot and forward contracts	14,329,790	13,629,255
Currency options	6,233,704	2,215,149
	20,563,494	15,844,404
Other	6,438,779	7,593,832
<b>Total</b>	<b>42,059,141</b>	<b>44,521,013</b>

## 32. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with current year presentation except as mentioned in note 2b (iii).

## 33. BOARD OF DIRECTORS APPROVAL

The financial statements were approved by the Board of Directors on January 14, 2002.



# Branches

Branch		Telephone No.	Facsimile No.	PO Box	Postal Code
<b>CENTRAL REGION BRANCHES</b>					
Head Office	Riyadh	(1)4029000	(1)4027747	56921	11564
Riyadh	Riyadh	(1)4024111	(1)4024111	26	11411
Sitteen	Riyadh	(1)4771885	(1)4771027	41095	11521
Dhabab	Riyadh	(1)4040365	(1)4043959	6876	11452
Olaya	Riyadh	(1)4659331	(1)4659440	10875	11443
Buraidah		(6)3250872	(6)3250588	1049	-
Industrial Area	Riyadh	(1)4465708	(1)4460781	1006	11431
Hijaz Road	Riyadh	(1)4585512	(1)4585424	4045	11491
Unaiza		(6)3646880	(6)3648662	166	81888
Manfouha	Riyadh	(1)4583776	(1)4583753	40172	11499
Dirah	Riyadh	(1)4114000	(1)4117447	20382	11455
Rawdah	Riyadh	(1)4913612	(1)4914376	21346	11475
Wadi Al-Dawaser		(1)7840312	(1)7840430	98	11991
Al-Zutfi		(6)4222252	(6)4222240	275	11932
Shemeisi	Riyadh	(1)4112703	(1)4112059	52264	11563
Al-Kharj		(1)5441912	(1)5444484	31	11942
Dawadmi		(1)6420900	(1)6421032	206	11911
Hawtat Bani Tamim		(1)5550780	(1)5550784	51	11941
Al-Majma'a		(6)4323840	(6)4323848	229	11952
Akariah	Olaya - Riyadh	(1)4191000	(1)4191803	53055	11583
Rabwa	Riyadh	(1)4910546	(1)4910573	25067	11466
Shaqra		(1)6220909	(1)6221758	153	11961
Al-Rass		(6)3330988	(6)3335225	244	-
Farazdaq St.	Riyadh	(1)4771818	(1)4793394	60312	11545
Shifa	Riyadh	(1)4213111	(1)4223123	61302	11565
Prince Abdullah Qtr.	Riyadh	(1)4765300	(1)4764015	42618	11551
Swaidi	Riyadh	(1)4261200	(1)4261827	61128	11565
Mutanabi St.	Riyadh	(1)4765400	(1)4769294	27035	11417
Dahrat Al-Badia	Riyadh	(1)4258060	(1)4261284	61129	11565
Murabba	Riyadh	(1)4050707	(1)4032349	8667	11492
2nd Industrial City	Riyadh	(1)2652088	(1)2652023	50729	11533
Khashm Al-A'n	Riyadh	(1)2520088	(1)2520088	87139	11642
Al-Oruba St.	Riyadh	(1)4820111	(1)4824997	87735	11673
Diplomatic Qtr.	Riyadh	(1)4880658	(1)4880901	9014	11413
Naseem	Riyadh	(1)2328230	(1)2330291	57504	11584
Ladies'	Riyadh	(1)4600065	(1)4600213	60877	11555
Afif		(1)7223013	(1)7223021	180	11921
Quwaiyah		(1)6521206	(1)6521164	34	11971
Mursalat	Riyadh	(1)4562080	(1)4569177	92161	11653
Takhassusi	Riyadh	(1)4820489	(1)4822090	93095	11673
Land Forces	Riyadh	(1)4787154	-	8667	11492
Al Hamraa	Riyadh	(1)2782555	(1)2488531	225051	11324

# Branches

Branch		Telephone No.	Facsimile No.	PO Box	Postal Code
<b>WESTERN REGION BRANCHES</b>					
Madina Road	Jeddah	(2)6600272	(2)6611104	9463	21413
Balad	Jeddah	(2)6480112	(2)6484321	344	21411
Gazzah	Makkah	(2)5743455	(2)5747244	238	-
Makkah Road	Jeddah	(2)6873509	(2)6886966	8055	21482
Madina Munawwarah		(4)8237144	(4)8251312	2443	-
Yanbu		(4)3226201	(4)3227626	483	-
Taif		(2)7384122	(2)7381690	1542	-
Sitteen	Makkah	(2)5365912	(2)5364545	3691	-
Wajh		(4)4421283	(4)4421149	44	-
Bab Makkah	Jeddah	(2)6438441	(2)6438654	16060	21464
Aziziyah	Makkah	(2)5570838	(2)5570821	1355	-
Rabigh		(2)4220196	(2)4220816	45	21911
Al-Ula		(4)8840117	(4)8841778	91	-
Hay Al-Salamah	Jeddah	(2)6914404	(2)6912292	14906	21434
Prince Majid St.	Jeddah	(2)6170473	(2)6744533	13304	21493
Makaronah	Jeddah	(2)6700600	(2)6724183	13303	21493
Ma'abdhah	Makkah	(2)5735623	(2)5735717	5038	-
Mahjar	Jeddah	(2)6373776	(2)6373783	30411	21477
Hay Al-Jamia'a	Jeddah	(2)6813804	(2)6813806	30577	21487
Otaibiah	Makkah	(2)5423580	(2)5423800	1355	-
Misyal	Makkah	(2)5378431	(2)5381161	1355	-
Sharafiah	Jeddah	(2)6515165	(2)6515207	9463	21413
Shohadah	Makkah	(2)5450594	(2)5442008	5927	-
Gurban	Madina	(4)8230085	(4)8234003	2443	-
Shohadah Area	Taif	(2)7491008	(2)7491761	1542	-
Al-Safa	Jeddah	(2)6935767	(2)6933460	53869	21593
Hira St.	Jeddah	(2)6550665	(2)6540102	45031	21512
Tahliyah St.	Jeddah	(2)6608576	(2)6612935	51283	21543
<b>EASTERN REGION BRANCHES</b>					
Dammam		(3)8333577	(3)8347309	18	31411
Khobar		(3)8948660	(3)8942752	37	31952
Qatif		(3)8513737	(3)8540759	125	31911
Hofuf		(3)5827806	(3)5877808	1004	31982
Jubail		(3)3620029	(3)3620464	351	31951
Khazzan St.	Damman	(3)8272422	(3)8272911	5767	31432
Mubarraz		(3)5313334	(3)5313016	10187	31982
Buqaiq		(3)5662612	(3)5663856	184	31992
Al-Omran		(3)5963632	(3)5960144	1845	31982
Ras Tannourah		(3)6673339	(3)6673572	242	31941
Thuqba		(3)8952848	(3)8982980	20412	31952
Hafr Al-Batin		(3)7224321	(3)7223672	167	31991
Khafji		(3)7661450	(3)7671627	443	31971
King A. Aziz St.	Khobar	(3)8982211	(3)8953289	1573	31952



# Branches

Branch		Telephone No.	Facsimile No.	PO Box	Postal Code
<b>EASTERN REGION BRANCHES</b> CONTINUED					
Old Industrial Area	Dammam	(3)8471752	(3)8471732	7589	31472
Sihat		(3)8501516	(3)8503121	31	31972
First St.	Dammam	(3)8344123	(3)8338537	18	31411
Street 42	Dammam	(3)8414474	(3)8414320	18	31411
Mazroueya	Hofuf	(3)5883969	(3)5880561	1004	31982
Rawda	Hofuf	(3)5806263	(3)5803046	1004	31982
Qarah	Hofuf	(3)5963076	(3)5962276	1004	31982
Industrial Area	Khobar	(3)8672800	(3)8981365	37	31952
2nd Industrial Area	Dammam	(3)8121371	(3)8121277	18	31411
Mukhattat 71	Dammam	(3)8202272	(3)8203360	18	31411
Al Rashid Centre	Khobar	(3)8649788	(3)8652304	3933	31952
Maidan Al-Khamis	Hofuf	(3)5867246	(3)5823291	1004	31982
Al-Najah St.	Hofuf	(3)5875038	(3)5876317	1004	31982
Muhammadiyah	Dammam	(3)8178100	(3)8178090	18	31411
<b>NORTHERN REGION BRANCHES</b>					
Hail		(6)5329328	(6)5323848	1146	-
Ar'ar		(4)6622416	(4)6627004	365	-
Al-Jouf		(4)6245188	(4)6247988	353	-
Qurayat		(4)6423904	(4)6423804	208	-
Barzan	Hail	(6)5434869	(6)5434983	7117	-
Tabuk		(4)4232172	(4)4232164	698	-
Tayma		(4)4630632	(4)4630080	49	-
<b>SOUTHERN REGION BRANCHES</b>					
Abha		(7)2249012	(7)2248820	694	-
Najran		(7)5222880	(7)5220868	344	-
Khamis Mushayt		(7)2233334	(7)2234388	934	-
Al-Baha		(7)7252300	(7)7250833	228	-
Baljurashi		(7)7222920	(7)7222916	131	22888
Jizan		(7)3220520	(7)3223751	233	-
Bisha		(7)6227009	(7)6222373	272	-
Dhahran Al-Janoob		(7)2550320	(7)2550516	34	-
Sabya		(7)3262927	(7)3262942	3	-
Al-Qunfudah		(7)7321045	(7)7320932	6	21912
Al-Namas		(7)2821029	(7)2820160	195	-
Mahayl Aseer		(7)2852036	(7)2851493	162	-
Cornmercial Market	K. Mushayt	(7)2233578	(7)2231890	934	-
<b>OVERSEAS BRANCH</b>					
London Branch, 35 Curzon Street		(020)72974600	(020)72974900		W1J 7TT
		Telex: 22368 ARABNT G			