

## SPECIAL REVIEW REPORT

### To the Shareholders of Arab National Bank

We have reviewed the accompanying balance sheet of **Arab National Bank** (the Bank) as of 31 March 2003, and the related statements of income, changes in shareholders' equity and cash flows for the three month period then ended. These interim condensed financial statements are the responsibility of the Bank's management.

We conducted our review in accordance with generally accepted auditing standards applicable to review engagements. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards.

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30 Muharram 1424H  
(2 April 2003)



**ARAB NATIONAL BANK  
BALANCE SHEET**

<b>As at</b>	<b>31 March 2003 (Unaudited) SAR'000</b>	31 December 2002 (Audited) SAR'000	31 March 2002 (Unaudited) SAR'000
<b>Note</b>			
<b>ASSETS</b>			
Cash and balances with SAMA	<b>1,502,431</b>	3,134,437	4,036,916
Due from banks and other financial institutions	<b>3,020,056</b>	4,386,952	1,490,094
Investments, net	2 <b>20,696,732</b>	19,065,267	18,049,617
Loans and advances, net	<b>17,462,955</b>	16,015,709	14,276,506
Other real estate	<b>140,695</b>	142,895	250,920
Fixed assets, net	<b>298,545</b>	298,975	277,052
Other assets	<b>1,029,823</b>	1,254,469	860,547
<b>Total assets</b>	<b>44,151,237</b>	44,298,704	39,241,652
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	<b>8,275,439</b>	10,040,729	7,096,746
Customer deposits	<b>30,308,359</b>	28,166,307	27,348,739
Other liabilities	<b>1,795,744</b>	2,543,366	1,287,351
<b>Total liabilities</b>	<b>40,379,542</b>	40,750,402	35,732,836
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	<b>1,800,000</b>	1,800,000	1,800,000
Statutory reserve	<b>1,650,000</b>	1,650,000	1,500,000
Other reserves	<b>130,433</b>	92,554	32,690
Retained earnings	<b>191,262</b>	5,748	176,126
<b>Total shareholders' equity</b>	<b>3,771,695</b>	3,548,302	3,508,816
<b>Total liabilities and shareholders' equity</b>	<b>44,151,237</b>	44,298,704	39,241,652

The accompanying notes 1 to 6 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK  
STATEMENT OF INCOME  
(Unaudited)**

	<b>Three months ended</b>	
	<b>31 March 2003</b>	31 March 2002
	<b>SAR'000</b>	SAR'000
Special commission income	<b>498,024</b>	468,259
Special commission expense	<b>120,892</b>	136,844
<b>Net special commission income</b>	<b>377,132</b>	331,415
Fees from banking services, net	<b>50,545</b>	37,896
Exchange income	<b>23,264</b>	17,294
Trading loss	<b>(268)</b>	(69)
Gains on investments, net	<b>135</b>	24,225
Other operating income	<b>1,816</b>	2,474
<b>Total operating income</b>	<b>452,624</b>	413,235
Salaries and employee related expenses	<b>112,259</b>	107,876
Rent and premises related expenses	<b>10,920</b>	10,412
Depreciation and amortization	<b>15,837</b>	15,770
Other general and administrative expenses	<b>62,303</b>	59,035
Provision for possible credit losses	<b>65,791</b>	66,275
Other operating expenses	<b>-</b>	185
<b>Total operating expenses</b>	<b>267,110</b>	259,553
<b>Net income for the period</b>	<b>185,514</b>	153,682
<b>Earnings per share for the period (in SAR)</b>	<b>5.15</b>	4.27

The accompanying notes 1 to 6 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited)**

	<u>Share capital SAR'000</u>	<u>Statutory reserve SAR'000</u>	<u>General reserve SAR'000</u>	<u>Other reserves SAR'000</u>	<u>Retained earnings SAR'000</u>	<u>Total SAR'000</u>
<b>For the three months ended 31 March 2003</b>						
Balance at beginning of the period	<b>1,800,000</b>	<b>1,650,000</b>	-	<b>92,554</b>	<b>5,748</b>	<b>3,548,302</b>
Net income for the period	-	-	-	-	<b>185,514</b>	<b>185,514</b>
Net changes in fair value and cash flow hedges	-	-	-	<b>37,879</b>	-	<b>37,879</b>
Balance at end of the period	<u><b>1,800,000</b></u>	<u><b>1,650,000</b></u>	<u>-</u>	<u><b>130,433</b></u>	<u><b>191,262</b></u>	<u><b>3,771,695</b></u>
<b>For the three months ended 31 March 2002</b>						
Balance at beginning of the period	1,500,000	1,500,000	300,000	43,665	22,444	3,366,109
Bonus share issue	300,000	-	(300,000)	-	-	-
Net income for the period	-	-	-	-	153,682	153,682
Net changes in fair value and cash flow hedges	-	-	-	(10,975)	-	(10,975)
Balance at end of the period	<u>1,800,000</u>	<u>1,500,000</u>	<u>-</u>	<u>32,690</u>	<u>176,126</u>	<u>3,508,816</u>

The accompanying notes 1 to 6 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK  
STATEMENT OF CASH FLOWS  
(Unaudited)**

**For the three months ended 31 March**

	<b>Note</b>	<b>2003 SAR'000</b>	<b>2002 SAR'000</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>185,514</b>	153,682
<b>Adjustments to reconcile net income to net cash from (used in) operating activities</b>			
Amortisation of premium and accretion of discounts on investments, net		<b>(9,264)</b>	1,693
Gains on investments		<b>(135)</b>	(24,225)
Depreciation and amortization		<b>15,837</b>	15,770
Losses on disposal of fixed assets		<b>-</b>	183
Provision for possible credit losses		<b>65,791</b>	66,275
		<b>257,743</b>	213,378
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposits with SAMA		<b>(58,051)</b>	46,429
Due from banks and other financial institutions maturing after ninety days		<b>-</b>	(244,518)
Loans and advances		<b>(1,508,580)</b>	(477,837)
Other real estate		<b>2,200</b>	3,685
Other assets		<b>174,913</b>	198,986
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		<b>(1,765,290)</b>	(1,041,561)
Customer deposits		<b>2,143,153</b>	1,200,920
Other liabilities		<b>(273,898)</b>	(137,470)
		<b>(1,027,810)</b>	(237,988)
<b>Net cash used in operating activities</b>		<b>(1,027,810)</b>	(237,988)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Proceeds from sale and matured investments		<b>764,923</b>	3,473,017
Purchase of investments		<b>(2,358,926)</b>	(2,292,205)
Purchase of fixed assets		<b>(15,407)</b>	(13,059)
Proceeds from sale of fixed assets		<b>-</b>	(183)
		<b>(1,609,410)</b>	1,167,570
<b>Net cash (used in) from investing activities</b>		<b>(1,609,410)</b>	1,167,570
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid		<b>(419,733)</b>	(314,781)
		<b>(419,733)</b>	(314,781)
<b>Net cash used in financing activities</b>		<b>(419,733)</b>	(314,781)
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(3,056,953)</b>	614,801
Cash and cash equivalents at beginning of the period		<b>6,200,464</b>	3,662,059
<b>Cash and cash equivalents at end of the period</b>	5	<b>3,143,511</b>	4,276,860
<u>Supplemental non-cash information</u>			
Net changes in fair value and cash flow hedges		<b>37,879</b>	(10,975)

The accompanying notes 1 to 6 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**For the three months ended 31 March 2003, 2002**

**1. Accounting policies**

The Bank follows the Accounting Standards promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards. These interim condensed financial statements are prepared in accordance with International Accounting Standard No. 34 Interim Financial Reporting issued by the International Accounting Standards Board, and also comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2002.

**Reclassification**

Certain amounts have been reclassified to conform with the current period presentation.

**2. Investments, net**

The analysis of investments is as follows:

<b>SAR'000</b>	<b>At 31 March 2003 (Unaudited)</b>	At 31 December 2002 (Audited)	At 31 March 2002 (Unaudited)
Available for sale	<b>3,281,898</b>	3,192,801	3,864,191
Originated debt	<b>14,610,320</b>	13,275,384	11,365,865
Held to maturity	<b>2,804,514</b>	2,597,082	2,819,561
<b>Total</b>	<b>20,696,732</b>	19,065,267	18,049,617

**3. Derivatives**

The table below sets out the positive and negative fair values of the Bank's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the related future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk nor market risk.

<b>SAR'000</b>	<b>At 31 March 2003 (Unaudited)</b>			At 31 December 2002 (Audited)			At 31 March 2002 (Unaudited)		
	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional amount</b>	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional Amount
<b>Held for trading:</b>									
Commission rate swaps	<b>67,392</b>	<b>69,415</b>	<b>3,655,000</b>	76,285	77,593	4,448,750	52,342	50,042	2,600,000
Forward foreign exchange contracts	<b>179,336</b>	<b>102,439</b>	<b>15,972,328</b>	203,261	116,963	11,711,108	113,686	32,470	12,949,625
Currency options	<b>53,613</b>	<b>51,900</b>	<b>6,203,174</b>	86,732	84,438	5,942,683	37,682	37,682	10,552,876
Other	<b>21</b>	<b>150</b>	<b>77,980</b>	21	150	77,787	-	-	-
<b>Held as fair value hedges:</b>									
Commission rate swaps	<b>6,975</b>	<b>124,802</b>	<b>6,063,950</b>	8,670	121,660	5,983,315	12,149	46,064	6,474,247
<b>Held as cash flow hedges:</b>									
Commission rate swaps	<b>50,721</b>	-	<b>752,500</b>	41,761	-	752,500	-	5,403	552,500
<b>Total</b>	<b>358,058</b>	<b>348,706</b>	<b>32,724,932</b>	416,730	400,804	28,916,143	215,859	171,661	33,129,248

#### 4. Credit related commitments and contingencies

The analysis of commitments and contingencies is as follows:

<b>SAR'000</b>	<b>At 31 March 2003 (Unaudited)</b>	At 31 December 2002 (Audited)	At 31 March 2002 (Unaudited)
Letters of credit	<b>1,228,621</b>	1,122,658	1,331,903
Letters of guarantee	<b>3,468,889</b>	3,406,644	3,122,261
Acceptances	<b>491,742</b>	399,790	410,323
Irrevocable commitments to extend credit	<b>2,424,488</b>	2,831,044	3,059,840
Other	<b>688,643</b>	698,416	692,234
<b>Total</b>	<b>8,302,383</b>	8,458,552	8,616,561

#### 5. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following:

<b>SAR'000</b>	<b>31 March 2003 (Unaudited)</b>	31 December 2002 (Audited)	31 March 2002 (Unaudited)
Cash and balances with SAMA excluding statutory deposits	<b>373,455</b>	2,063,512	3,031,284
Due from banks and other financial institutions maturing within ninety days	<b>2,770,056</b>	4,136,952	1,245,576
<b>Total</b>	<b>3,143,511</b>	6,200,464	4,276,860

#### 6. Business segments

The Bank's products and services can be categorised into the following business segments:

##### **Retail banking**

Deposit, credit and investment products for individuals.

##### **Corporate banking**

Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses and London branch.

##### **Treasury banking**

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

Transactions between the business segments are reported as recorded by the Bank's transfer pricing policy. The Bank's total assets and liabilities as at 31 March 2003 and 2002, its total operating income and expenses, and its net income for the three month periods then ended, by business segment, are as follows:

<b>31 March 2003 (Unaudited)</b>				
<b>SAR'000</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury banking</b>	<b>Total</b>
Total assets	<b>5,557,981</b>	<b>13,739,133</b>	<b>24,854,123</b>	<b>44,151,237</b>
Total liabilities	<b>16,257,456</b>	<b>3,112,279</b>	<b>21,009,807</b>	<b>40,379,542</b>
Total operating income	<b>294,772</b>	<b>90,007</b>	<b>67,845</b>	<b>452,624</b>
Total operating expenses	<b>196,878</b>	<b>60,099</b>	<b>10,133</b>	<b>267,110</b>
Net income	<b>97,894</b>	<b>29,908</b>	<b>57,712</b>	<b>185,514</b>

<b>31 March 2002 (Unaudited)</b>				
<b>SAR'000</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury banking</b>	<b>Total</b>
Total assets	4,792,860	11,865,354	22,583,438	39,241,652
Total liabilities	14,904,812	2,704,190	18,123,834	35,732,836
Total operating income	274,975	80,693	57,567	413,235
Total operating expenses	188,365	61,634	9,554	259,553
Net income	86,610	19,059	48,013	153,682