

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 30 June 2003, the related statements of income for the three month and six month periods ended 30 June 2003, and the statements of changes in shareholders' equity and cash flows for the six 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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6 Jumada Awal 1424H
(6 July 2003)



**ARAB NATIONAL BANK
BALANCE SHEET**

As at	30 June 2003 (Unaudited) SAR'000	31 December 2002 (Audited) SAR'000	30 June 2002 (Unaudited) SAR'000
Note			
ASSETS			
Cash and balances with SAMA	1,593,875	3,134,437	1,481,730
Due from banks and other financial institutions	2,881,979	4,386,952	3,749,952
Investments, net	2 21,360,785	19,065,267	18,390,191
Loans and advances, net	17,546,912	16,015,709	15,512,874
Other real estate	191,878	142,895	244,068
Fixed assets, net	322,465	298,975	288,900
Other assets	973,233	1,254,469	1,226,263
Total assets	44,871,127	44,298,704	40,893,978
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	7,554,279	10,040,729	8,610,391
Customer deposits	31,457,011	28,166,307	27,076,971
Other liabilities	1,851,001	2,543,366	1,524,048
Total liabilities	40,862,291	40,750,402	37,211,410
SHAREHOLDERS' EQUITY			
Share capital	1,800,000	1,800,000	1,800,000
Statutory reserve	1,650,000	1,650,000	1,500,000
Other reserves	175,824	92,554	58,534
Retained earnings	383,012	5,748	324,034
Total shareholders' equity	4,008,836	3,548,302	3,682,568
Total liabilities and shareholders' equity	44,871,127	44,298,704	40,893,978

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

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

	Three months ended		Six months ended	
	30 June 2003 SAR'000	30 June 2002 SAR'000	30 June 2003 SAR'000	30 June 2002 SAR'000
Special commission income	486,333	480,350	984,357	948,609
Special commission expense	116,539	124,999	238,831	261,843
Net special commission income	369,794	355,351	745,526	686,766
Fees from banking services, net	69,778	47,657	120,260	85,553
Exchange income	25,458	18,852	48,722	36,146
Trading income (loss)	57	124	(211)	56
Dividend income	-	18	-	18
Gains on investments, net	505	14,066	640	38,291
Other operating income	1,917	4,685	3,733	7,156
Total operating income	467,509	440,753	918,670	853,986
Salaries and employee related expenses	113,113	111,627	225,372	219,502
Rent and premises related expenses	12,652	10,690	23,573	21,102
Depreciation and amortization	15,960	15,892	31,797	31,662
Other general and administrative expenses	63,070	66,128	123,909	125,162
Provision for possible credit losses	70,907	88,508	136,698	154,783
Other operating expenses	57	-	57	185
Total operating expenses	275,759	292,845	541,406	552,396
Net income for the period	191,750	147,908	377,264	301,590
Earnings per share for the period (in SAR)	5.33	4.11	10.48	8.38

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>
For the six months ended 30 June 2003						
Balance at beginning of the period	1,800,000	1,650,000	-	92,554	5,748	3,548,302
Net income for the period	-	-	-	-	377,264	377,264
Net changes in fair value and cash flow hedges	-	-	-	83,270	-	83,270
Balance at end of the period	<u>1,800,000</u>	<u>1,650,000</u>	<u>-</u>	<u>175,824</u>	<u>383,012</u>	<u>4,008,836</u>
For the six months ended 30 June 2002						
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	-	-	-	-	301,590	301,590
Net changes in fair value and cash flow hedges	-	-	-	14,869	-	14,869
Balance at end of the period	<u>1,800,000</u>	<u>1,500,000</u>	<u>-</u>	<u>58,534</u>	<u>324,034</u>	<u>3,682,568</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 six months ended 30 June

	Note	2003 SAR'000	2002 SAR'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the period		377,264	301,590
Adjustments to reconcile net income to net cash from (used in) operating activities			
Amortisation of premium and accretion of discounts on investments, net		(18,898)	(4,471)
Gains on investments		(640)	(38,291)
Depreciation and amortization		31,797	31,662
Losses (gains) on disposal of fixed assets		30	(1,381)
Provision for possible credit losses		136,698	154,783
		526,251	443,892
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		(141,049)	(92,919)
Due from banks and other financial institutions maturing after ninety days		(241,283)	(632,500)
Loans and advances		(1,659,484)	(1,800,991)
Other real estate		(48,983)	10,537
Other assets		228,133	36,239
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,486,450)	472,084
Customer deposits		3,295,792	930,721
Other liabilities		(209,848)	(98,161)
		(736,921)	(731,098)
Net cash used in operating activities		(736,921)	(731,098)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale and matured investments		1,585,928	5,637,512
Purchase of investments		(3,784,975)	(4,737,977)
Purchase of fixed assets		(55,748)	(40,804)
Proceeds from sale of fixed assets		431	1,386
		(2,254,364)	860,117
Net cash (used in) from investing activities		(2,254,364)	860,117
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(436,582)	(336,876)
		(436,582)	(336,876)
Net cash used in financing activities		(436,582)	(336,876)
Decrease in cash and cash equivalents		(3,427,867)	(207,857)
Cash and cash equivalents at beginning of the period		6,200,464	3,662,059
Cash and cash equivalents at end of the period	5	2,772,597	3,454,202
<u>Supplemental non-cash information</u>			
Net changes in fair value and cash flow hedges		83,270	14,869

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 six months ended 30 June 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:

SAR'000	At 30 June 2003 (Unaudited)	At 31 December 2002 (Audited)	At 30 June 2002 (Unaudited)
Available for sale	3,227,253	3,192,801	3,766,995
Originated debt	15,316,747	13,275,384	13,024,170
Held to maturity	2,816,785	2,597,082	1,599,026
Total	21,360,785	19,065,267	18,390,191

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.

SAR'000	At 30 June 2003 (Unaudited)			At 31 December 2002 (Audited)			At 30 June 2002 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional Amount
Held for trading:									
Commission rate swaps	59,910	60,161	2,275,000	76,285	77,593	4,448,750	70,649	69,438	4,230,000
Forward rate agreements	-	-	-	-	-	-	654	713	200,883
Commission rate futures	-	-	187,500	-	-	-	-	-	-
Forward foreign exchange contracts	166,281	84,905	11,784,864	203,261	116,963	11,711,108	234,082	139,321	16,302,045
Currency options	63,731	62,140	6,031,707	86,732	84,438	5,942,683	89,685	88,241	5,133,405
Other	21	-	3,263	21	150	77,787	-	-	75,000
Held as fair value hedges:									
Commission rate swaps	1,753	136,362	4,721,547	8,670	121,660	5,983,315	9,416	74,724	6,811,484
Held as cash flow hedges:									
Commission rate swaps	56,846	-	752,500	41,761	-	752,500	13,944	-	552,500
Total	348,542	343,568	25,756,381	416,730	400,804	28,916,143	418,430	372,437	33,305,317

4. Credit related commitments and contingencies

The analysis of commitments and contingencies is as follows:

SAR'000	At 30 June 2003 (Unaudited)	At 31 December 2002 (Audited)	At 30 June 2002 (Unaudited)
Letters of credit	1,662,396	1,122,658	1,072,210
Letters of guarantee	3,450,836	3,406,644	3,293,664
Acceptances	436,225	399,790	461,760
Irrevocable commitments to extend credit	2,231,451	2,831,044	1,974,910
Other	680,886	698,416	690,266
Total	8,461,794	8,458,552	7,492,810

5. Cash and cash equivalents

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

SAR'000	30 June 2003 (Unaudited)	31 December 2002 (Audited)	30 June 2002 (Unaudited)
Cash and balances with SAMA excluding statutory deposits	381,901	2,063,512	336,750
Due from banks and other financial institutions maturing within ninety days	2,390,696	4,136,952	3,117,452
Total	2,772,597	6,200,464	3,454,202

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 30 June 2003 and 2002, its total operating income and expenses, and its net income for the six month periods then ended, by business segment, are as follows:

30 June 2003 (Unaudited)				
SAR'000	Retail banking	Corporate banking	Treasury banking	Total
Total assets	5,892,029	13,886,235	25,092,863	44,871,127
Total liabilities	16,414,824	3,086,349	21,361,118	40,862,291
Total operating income	604,799	189,911	123,960	918,670
Total operating expenses	401,401	118,802	21,203	541,406
Net income	203,398	71,109	102,757	377,264

30 June 2002 (Unaudited)				
SAR'000	Retail banking	Corporate banking	Treasury banking	Total
Total assets	4,922,178	12,818,700	23,153,100	40,893,978
Total liabilities	15,206,661	2,905,445	19,099,304	37,211,410
Total operating income	566,089	171,512	116,385	853,986
Total operating expenses	393,460	139,967	18,969	552,396
Net income	172,629	31,545	97,416	301,590