

**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 June 30, 2005, the related statements of income for the three month and six month periods ended June 30, 2005, 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 standards on 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.

Ernst & Young  
P.O. Box 2732  
Riyadh 11461  
Kingdom of Saudi Arabia

Deloitte & Touche  
Bakr Abulkhair & Co.  
P.O. Box 213  
Riyadh 11411  
Kingdom of Saudi Arabia



Abdulaziz A. Al-Sowailim  
Certified Public Accountant  
Registration No. 277



Bakr A. Abulkhair  
Certified Public Accountant  
Registration No. 101



28 Jumada I 1426H  
(July 5, 2005)

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**BALANCE SHEET**

<b>As at</b>	<b>Note</b>	<b>June 30, 2005 (Unaudited) SAR'000</b>	December 31, 2004 (Audited) SAR'000	June 30, 2004 (Unaudited) SAR'000
<b>ASSETS</b>				
Cash and balances with SAMA		<b>2,414,729</b>	7,061,456	2,118,095
Due from banks and other financial institutions		<b>2,875,241</b>	4,731,873	2,833,469
Investments, net	2	<b>21,613,520</b>	21,187,466	21,574,495
Loans and advances, net		<b>33,327,834</b>	28,557,967	24,459,874
Other real estate		<b>159,097</b>	191,899	193,940
Fixed assets, net		<b>404,938</b>	382,415	358,333
Other assets		<b>1,108,485</b>	1,211,967	993,547
<b>Total assets</b>		<b><u>61,903,844</u></b>	<u>63,325,043</u>	<u>52,531,753</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		<b>6,218,841</b>	9,820,827	8,387,187
Customer deposits		<b>46,776,541</b>	46,315,710	37,834,260
Term loan	3	<b>1,312,500</b>	-	-
Other liabilities		<b>2,196,072</b>	2,394,088	1,979,883
<b>Total liabilities</b>		<b><u>56,503,954</u></b>	<u>58,530,625</u>	<u>48,201,330</u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	9	<b>2,500,000</b>	2,000,000	2,000,000
Statutory reserve		<b>2,000,000</b>	2,000,000	1,800,000
General reserve		<b>50,000</b>	550,000	-
Other reserves	5	<b>216,945</b>	226,759	178,712
Retained earnings		<b>632,945</b>	17,659	351,711
<b>Total shareholders' equity</b>		<b><u>5,399,890</u></b>	<u>4,794,418</u>	<u>4,330,423</u>
<b>Total liabilities and shareholders' equity</b>		<b><u>61,903,844</u></b>	<u>63,325,043</u>	<u>52,531,753</u>

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**STATEMENT OF INCOME**  
**(Unaudited)**

	<b>Note</b>	<b>For the three months ended</b>		<b>For the six months ended</b>	
		<b>June 30, 2005</b>	June 30, 2004	<b>June 30, 2005</b>	June 30, 2004
		<b>SAR'000</b>	SAR'000	<b>SAR'000</b>	SAR'000
Special commission income		<b>817,751</b>	570,844	<b>1,560,161</b>	1,123,611
Special commission expense		<b>265,859</b>	113,394	<b>494,598</b>	229,752
<b>Net special commission income</b>		<b>551,892</b>	457,450	<b>1,065,563</b>	893,859
Fees from banking services, net		<b>196,030</b>	121,417	<b>323,186</b>	211,121
Exchange income		<b>26,622</b>	23,197	<b>50,973</b>	46,976
Trading income		<b>554</b>	3,193	<b>6,480</b>	3,601
Dividend income		<b>1,066</b>	-	<b>2,396</b>	-
Gains on non trading investments, net		<b>72,016</b>	899	<b>78,173</b>	4,506
Other operating income		<b>15,761</b>	1,395	<b>19,618</b>	2,476
<b>Total operating income</b>		<b>863,941</b>	607,551	<b>1,546,389</b>	1,162,539
Salaries and employee related expenses		<b>159,955</b>	140,256	<b>317,565</b>	271,436
Rent and premises related expenses		<b>16,536</b>	12,903	<b>30,657</b>	25,048
Depreciation and amortization		<b>20,858</b>	15,448	<b>36,406</b>	31,279
Other general and administrative expenses		<b>69,143</b>	65,312	<b>130,172</b>	118,521
Provision for possible credit losses		<b>68,183</b>	70,256	<b>139,815</b>	131,352
Impairment of other financial assets		-	-	-	9,187
Other operating expenses		<b>118</b>	1	<b>186</b>	65
<b>Total operating expenses</b>		<b>334,793</b>	304,176	<b>654,801</b>	586,888
<b>Net income for the period</b>		<b>529,148</b>	<u>303,375</u>	<b>891,588</b>	<u>575,651</u>
<b>Earnings per share for the period</b> <b>(in SAR)</b>	9	<b>10.58</b>	6.07	<b>17.83</b>	11.51

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the six months ended June 30, 2005 and 2004**  
**(Unaudited)**

	<u>Note</u>	<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>2005</b>							
Balance January 1		2,000,000	2,000,000	550,000	226,759	17,659	4,794,418
Bonus share issue	9	500,000		(500,000)	-	-	-
Net income for the period		-	-	-		891,588	891,588
Interim gross dividend	10	-	-	-	-	(272,941)	(272,941)
Net changes in fair value and cash flow hedges		-	-	-	(9,814)	(3,361)	(13,175)
Balance at June 30, 2005		<u>2,500,000</u>	<u>2,000,000</u>	<u>50,000</u>	<u>216,945</u>	<u>632,945</u>	<u>5,399,890</u>
<b>2004</b>							
Balance at January 1		1,800,000	1,800,000	200,000	170,728	6,613	3,977,341
Bonus share issue	9	200,000	-	(200,000)	-	-	-
Net income for the period		-	-	-	-	575,651	575,651
Interim gross dividend	10	-	-	-	-	(214,830)	(214,830)
Net changes in fair value and cash flow hedges		-	-	-	7,984	(15,723)	(7,739)
Balance at June 30, 2004		<u>2,000,000</u>	<u>1,800,000</u>	<u>-</u>	<u>178,712</u>	<u>351,711</u>	<u>4,330,423</u>

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**STATEMENT OF CASH FLOWS**  
**For the six months ended**  
**(Unaudited)**

	<b>June 30, 2005</b>	June 30, 2004
<b>Note</b>	<b>SAR'000</b>	<b>SAR'000</b>
<b><u>OPERATING ACTIVITIES</u></b>		
<b>Net income for the period</b>	<b>891,588</b>	575,651
<b>Adjustments to reconcile net income to net cash (used in) from operating activities</b>		
(Accretion of discounts) and amortization of premium on investments, net	<b>(9,844)</b>	(20,391)
Gains on non trading investments	<b>(78,173)</b>	(4,506)
Depreciation and amortization	<b>36,406</b>	31,279
Gains on disposal of fixed assets, net	<b>(2,658)</b>	(53)
Impairment of other financial assets	-	9,187
Provision for possible credit losses	<b>139,815</b>	131,352
	<b>977,134</b>	722,519
<b>Net (increase) decrease in operating assets:</b>		
Statutory deposit with SAMA	<b>(169,092)</b>	(235,544)
Investments held for trading	<b>(4,388)</b>	(95,797)
Loans and advances	<b>(4,902,578)</b>	(4,422,636)
Other real estate	<b>32,802</b>	1,946
Other assets	<b>(3,918)</b>	(73,209)
<b>Net increase (decrease) in operating liabilities:</b>		
Due to banks and other financial institutions	<b>(3,601,986)</b>	(721,382)
Customer deposits	<b>460,806</b>	4,110,980
Other liabilities	<b>(241,149)</b>	55,542
<b>Net cash used in operating activities</b>	<b>(7,452,369)</b>	(657,581)
<b><u>INVESTING ACTIVITIES</u></b>		
Proceeds from sales of and matured non trading investments	<b>3,834,567</b>	841,347
Purchase of non trading investments	<b>(4,137,355)</b>	(864,590)
Purchase of fixed assets	<b>(66,928)</b>	(84,280)
Proceeds from sale of fixed assets	<b>10,657</b>	14,029
<b>Net cash used in investing activities</b>	<b>(359,059)</b>	(93,494)
<b><u>FINANCING ACTIVITIES</u></b>		
Dividends paid	<b>(173,523)</b>	(405,421)
Term loan	<b>1,312,500</b>	-
<b>Net cash from (used in) financing activities</b>	<b>1,138,977</b>	(405,421)
<b>Decrease in cash and cash equivalents</b>	<b>(6,672,451)</b>	(1,156,496)
Cash and cash equivalents at the beginning of the period	<b>10,187,697</b>	4,637,056
<b>Cash and cash equivalents at the end of the period</b>	<b>7 3,515,246</b>	3,480,560
<b><u>Supplemental non cash information</u></b>		
Net changes in fair value and cash flow hedges	<b>(13,175)</b>	(7,739)

The accompanying notes 1 to 11 form an integral part of these interim condensed financial statements.

## 1. Summary of significant accounting policies

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

### a) Basis of preparation

The Bank prepares these interim condensed financial statements in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS), and the interpretations issued by the International Accounting Standards Board (IASB). The Bank also prepares its interim condensed financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

These interim condensed financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives and investments held for trading, available for sale and FVIS (Fair Value through Income Statement).

Except for the changes explained in note (1b) below, 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 December 31, 2004.

### b) Change in accounting policies

The bank has implemented the revised versions of International Accounting Standard (IAS) 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement effective January 1, 2005 with retrospective effect, wherever applicable, with respect to the recognition, measurement and disclosure of financial instruments.

The revised IAS 39 has introduced a new classification Fair Value through Income Statement (FVIS), under which financial assets and liabilities, except for investments for equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, can be classified and carried at fair value with the changes in fair values recognized in the statement of income.

This new classification includes financial assets and liabilities held for trading and items that are designated as FVIS at the time of initial recognition.

Following initial recognition, transfers between the various classifications of financial assets or liabilities are not ordinarily permissible.

Upon the introduction of these changes, the Bank was not required to reclassify any of its assets and liabilities.

## 2. Investments, net

Investment securities are classified as follows:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)	June 30, 2004 (Unaudited)
Held at FVIS	<b>203,447</b>	199,059	193,749
Available for sale	<b>4,434,252</b>	2,959,233	2,782,737
Held at amortised cost, other	<b>15,283,752</b>	16,144,818	16,112,759
Held to maturity	<b>1,692,069</b>	1,884,356	2,485,250
<b>Total</b>	<b>21,613,520</b>	21,187,466	21,574,495

Investments included in FVIS above include investments held for trading of SAR **203.4** million (December 2004: SAR 199.1 million; June 2004: SAR 193.7 million).

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes To The Interim Condensed Financial Statements (continued)**  
**For the six months ended June 30, 2005 and 2004**  
(SAR'000)

**3. Term loan**

On March 22, 2005, the Bank entered into a three year syndicate term loan facility agreement for an amount of USD 350 million for general banking purposes. The facility was drawn down in full on April 4, 2005 and is repayable in 2008. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related syndicate agreement.

**4. Derivatives**

The table below sets out the positive and negative fair values of 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 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.

	At June 30, 2005 (Unaudited)			At December 31, 2004 (Audited)			At June 30, 2004 (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
<b>Derivatives held for trading:</b>									
Commission rate swaps	2,017	799	3,583,895	8,551	8,650	825,000	18,384	18,628	1,411,250
Commission rate futures and options	-	-	-	-	-	375,000	-	-	141,395
Forward foreign exchange contracts	165,143	90,971	22,746,592	207,798	143,492	16,960,321	145,498	80,170	17,426,424
Currency options	30,131	27,174	2,807,953	42,086	38,247	5,511,724	47,055	41,976	7,719,480
Other	1,811	1,811	100,000	1,083	1,083	100,000	1,860	1,839	52,287
<b>Derivatives held as fair value hedges:</b>									
Commission rate swaps	8,777	55,442	3,779,820	36,669	44,971	5,369,494	43,263	44,063	5,632,333
<b>Derivatives held as cash flow hedges:</b>									
Commission rate swaps	9,869	3,303	1,393,750	17,764	-	552,500	22,494	3,555	1,418,125
<b>Total</b>	<b>217,748</b>	<b>179,500</b>	<b>34,412,010</b>	<b>313,951</b>	<b>236,443</b>	<b>29,694,039</b>	<b>278,554</b>	<b>190,231</b>	<b>33,801,294</b>

**5. Other reserves**

	June 30, 2005 (Unaudited)			December 31, 2004 (Audited)			June 30, 2004 (Unaudited)		
	Cash flow hedges	Available for sale investments	Total	Cash flow hedges	Available for sale investments	Total	Cash flow hedges	Available for sale investments	Total
Opening balance	17,763	208,996	226,759	38,538	132,190	170,728	38,538	132,190	170,728
Net change in fair value	(11,197)	79,556	68,359	(20,775)	66,322	45,547	(19,600)	29,189	9,589
Transfer to statement of income	-	(78,173)	(78,173)	-	10,484	10,484	-	(1,605)	(1,605)
Net movement during the period	(11,197)	1,383	(9,814)	(20,775)	76,806	56,031	(19,600)	27,584	7,984
Ending balance	6,566	210,379	216,945	17,763	208,996	226,759	18,938	159,774	178,712

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes To The Interim Condensed Financial Statements (continued)**  
**For the six months ended June 30, 2005 and 2004**  
(SAR'000)

**6. Credit related commitments and contingencies**

The Bank's credit related commitments and contingencies are as follows:

	<b>At June 30, 2005 (Unaudited)</b>	At December 31, 2004 (Audited)	At June 30, 2004 (Unaudited)
Letters of credit	<b>2,485,614</b>	2,075,667	1,747,288
Letters of guarantee	<b>5,271,081</b>	4,144,825	6,114,889
Acceptances	<b>901,099</b>	731,519	973,988
Irrevocable commitments to extend credit	<b>1,844,251</b>	1,879,389	1,865,502
Other	<b>467,646</b>	505,626	523,388
<b>Total</b>	<b><u>10,969,691</u></b>	<u>9,337,026</u>	<u>11,225,055</u>

**7. Cash and cash equivalents**

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

	<b>At June 30, 2005 (Unaudited)</b>	At December 31, 2004 (Audited)	At June 30, 2004 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	<b>640,005</b>	5,455,824	647,091
Due from banks and other financial institutions maturing within ninety days	<b>2,875,241</b>	4,731,873	2,833,469
<b>Total</b>	<b><u>3,515,246</u></b>	<u>10,187,697</u>	<u>3,480,560</u>

**8. Business segments**

For management purposes the Bank is organized into the following major 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 the Bank's London branch.

**Treasury banking**

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



**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes To The Interim Condensed Financial Statements (continued)**  
**For the six months ended June 30, 2005 and 2004**  
(SAR'000)

**Business Segment ( continued )**

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia with one international branch located in London, UK (the branch). However, the total assets, liabilities, commitments and results of operations of the branch are not significant in the context of the Bank's overall financial statements.

The Bank's total assets and liabilities at June 30, 2005 and 2004, its total operating income, expenses and net income for the six month periods then ended, by business segments, are as follows:

	<b>June 30, 2005 (Unaudited)</b>			
	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury banking</b>	<b>Total</b>
Total assets	<b>15,667,351</b>	<b>20,419,520</b>	<b>25,816,973</b>	<b>61,903,844</b>
Total liabilities	<b>22,964,311</b>	<b>3,902,229</b>	<b>29,637,411</b>	<b>56,503,951</b>
Total operating income	<b>1,121,951</b>	<b>257,869</b>	<b>166,569</b>	<b>1,546,389</b>
Total operating expenses	<b>420,727</b>	<b>204,524</b>	<b>29,554</b>	<b>654,801</b>
Net income	<b>701,228</b>	<b>53,345</b>	<b>137,015</b>	<b>891,588</b>

	<b>June 30, 2004 (Unaudited)</b>			
	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury banking</b>	<b>Total</b>
Total assets	10,010,768	16,616,424	25,904,561	52,531,753
Total liabilities	19,464,408	2,975,637	25,761,285	48,201,330
Total operating income	808,215	219,585	134,739	1,162,539
Total operating expenses	391,346	167,339	28,203	586,888
Net income	416,869	52,246	106,536	575,651

**9. Share capital**

During the period ended June 30, 2005, 10 million shares of SAR 50 each were issued after approval by the shareholders at their extraordinary general assembly meeting held on March 13, 2005. At June 30, 2005, the Bank has 50 million shares issued and outstanding. Furthermore, during the period ended June 30, 2004, 4 million shares of SAR 50 each were issued after approval by the shareholders at their extraordinary general assembly meeting held on March 14, 2004.

The calculations of earnings per share have been adjusted retrospectively for 2004 to reflect the impact of the bonus shares issued during 2005.

**10. Interim dividend, zakat and taxation**

The Board of Directors has declared interim gross dividend in respect of 2005 of SAR 272.9 million (2004-SAR 214.8). Zakat relating to Saudi shareholders, amounting to approximately SAR 13.8 million (2004-SAR 8.9) will be deducted from their share of the dividend. This will result in net dividend to Saudi shareholder of SAR 5 per share (2004-SAR 5). The income tax liability of the foreign shareholder will be deducted from their share of the dividend.

**11. Comparative figures**

Certain prior period figures have been reclassified to conform with the presentation in the current period.