

**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, 2006 and the related statements of income for the three month and six-month periods ended June 30, 2006, 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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9 Jumada Al-Thani 1427H  
(July 5, 2006)

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

<b>As at</b>	<b>Note</b>	<b>June 30 ,2006 (Unaudited) SAR'000</b>	<b>December 31, 2005 (Audited) SAR'000</b>	<b>June 30 ,2005 (Unaudited) SAR'000</b>
<b>ASSETS</b>				
Cash and balances with SAMA		<b>2,553,593</b>	2,495,186	2,414,729
Due from banks and other financial institutions		<b>2,175,037</b>	3,933,675	2,875,241
Investments, net	2	<b>18,681,836</b>	20,422,650	21,613,520
Loans and advances, net		<b>43,435,153</b>	38,778,556	33,327,834
Other real estate		<b>154,648</b>	158,865	159,097
Fixed assets, net		<b>495,028</b>	418,108	404,938
Other assets		<b>1,377,393</b>	1,285,039	1,108,485
<b>Total assets</b>		<b><u>68,872,688</u></b>	<u>67,492,079</u>	<u>61,903,844</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		<b>3,712,350</b>	8,376,934	6,218,841
Customer deposits		<b>54,530,299</b>	48,832,464	46,776,541
Other liabilities		<b>2,381,811</b>	2,633,502	2,196,072
Term loan		<b>1,312,500</b>	1,312,500	1,312,500
<b>Total liabilities</b>		<b><u>61,936,960</u></b>	<u>61,155,400</u>	<u>56,503,954</u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8	<b>3,250,000</b>	2,500,000	2,500,000
Statutory reserve		<b>2,500,000</b>	2,500,000	2,000,000
General reserve		<b>30,000</b>	780,000	50,000
Other reserves		<b>95,928</b>	217,690	216,945
Retained earnings		<b>1,059,800</b>	64,242	632,945
Proposed dividend		-	274,747	-
<b>Total shareholders' equity</b>		<b><u>6,935,728</u></b>	<u>6,336,679</u>	<u>5,399,890</u>
<b>Total liabilities and shareholders' equity</b>		<b><u>68,872,688</u></b>	<u>67,492,079</u>	<u>61,903,844</u>

The accompanying notes 1 to 9 form an integral part of these interim condensed financial statements.

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

	For the three months ended		For the six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<u>Note</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Special commission income	<b>1,087,507</b>	817,751	<b>2,146,242</b>	1,560,161
Special commission expense	<b>462,616</b>	265,859	<b>949,687</b>	494,598
<b>Net special commission income</b>	<b>624,891</b>	551,892	<b>1,196,555</b>	1,065,563
Fees from banking services, net	<b>331,741</b>	196,030	<b>613,215</b>	323,186
Exchange income	<b>31,188</b>	26,622	<b>61,748</b>	50,973
Income from FVIS Financial Instruments, net	<b>2,178</b>	-	<b>8,465</b>	-
Trading income, net	<b>981</b>	554	<b>1,996</b>	6,480
Dividend income	-	1,066	-	2,396
Gains on non - trading investments, net	<b>47,495</b>	72,016	<b>97,513</b>	78,173
Other operating income	<b>7,332</b>	15,761	<b>17,306</b>	19,618
<b>Total operating income</b>	<b>1,045,806</b>	863,941	<b>1,996,798</b>	1,546,389
Salaries and employee related expenses	<b>182,307</b>	159,955	<b>359,379</b>	317,565
Rent and premises related expenses	<b>19,542</b>	16,536	<b>36,952</b>	30,657
Depreciation and amortization	<b>20,875</b>	20,858	<b>39,330</b>	36,406
Other general and administrative expenses	<b>74,841</b>	69,143	<b>139,754</b>	130,172
Provision for credit losses	<b>15,714</b>	68,183	<b>67,516</b>	139,815
Other operating expenses	-	118	<b>14</b>	186
<b>Total operating expenses</b>	<b>313,279</b>	334,793	<b>642,945</b>	654,801
<b>Net income for the period</b>	<b>732,527</b>	529,148	<b>1,353,853</b>	891,588
<b>Earnings per share for the period</b> <b>(Expressed in SAR per share)</b>	8	1.63	4.17	2.74
	<b>2.25</b>			

The accompanying notes 1 to 9 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, 2006 and 2005**  
**(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>Proposed dividend SAR'000</u>	<u>Total SAR'000</u>
<b>2006</b>								
Balance January 1		2,500,000	2,500,000	780,000	217,690	64,242	274,747	6,336,679
Bonus share issue	8	750,000	-	(750,000)	-	-	-	-
Net income for the period		-	-	-	-	1,353,853	-	1,353,853
2005 final dividend paid		-	-	-	-	-	(274,747)	(274,747)
Interim gross dividend	9	-	-	-	-	(358,295)	-	(358,295)
Net changes in fair value and cash flow hedges		-	-	-	(121,762)	-	-	(121,762)
Balance at June 30		3,250,000	2,500,000	30,000	95,928	1,059,800	-	6,935,728
<b>2005</b>								
Balance at January 1, as restated		2,000,000	2,000,000	550,000	226,759	17,659	175,202	4,969,620
Bonus share issue	8	500,000	-	(500,000)	-	-	-	-
Net income for the period		-	-	-	-	891,588	-	891,588
2004 final dividend paid		-	-	-	-	-	(175,202)	(175,202)
Interim gross dividend	9	-	-	-	-	(272,941)	-	(272,941)
Net changes in fair value and cash flow hedges		-	-	-	(9,814)	(3,361)	-	(13,175)
Balance at June 30		2,500,000	2,000,000	50,000	216,945	632,945	-	5,399,890

The accompanying notes 1 to 9 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, 2006</b>	June 30, 2005
<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>1,353,853</b>	891,588
<b>Adjustments to reconcile net income to net cash (used in) from operating activities</b>		
Accretion of discounts on non - trading investments, net	<b>(5,545)</b>	(9,844)
Gains on non - trading investments	<b>(97,513)</b>	(78,173)
Depreciation and amortization	<b>39,330</b>	36,406
Losses (gains) on disposal of fixed assets, net	<b>14</b>	(2,658)
Provision for credit losses	<b>67,516</b>	139,815
	<b>1,357,655</b>	977,134
<b>Net (increase) decrease in operating assets:</b>		
Statutory deposit with SAMA	<b>(167,475)</b>	(169,092)
Investments held for trading	<b>-</b>	(4,388)
Loans and advances	<b>(4,744,076)</b>	(4,902,578)
Other real estate	<b>4,216</b>	32,802
Other assets	<b>(59,954)</b>	(3,918)
<b>Net increase (decrease) in operating liabilities:</b>		
Due to banks and other financial institutions	<b>(4,664,584)</b>	(3,601,986)
Customer deposits	<b>5,699,236</b>	460,806
Other liabilities	<b>(630,429)</b>	(241,149)
<b>Net cash used in operating activities</b>	<b>(3,205,411)</b>	(7,452,369)
<b><u>INVESTING ACTIVITIES</u></b>		
Proceeds from sales of and matured non trading investments	<b>2,922,123</b>	3,834,567
Purchase of non trading investments	<b>(1,198,717)</b>	(4,137,355)
Purchase of fixed assets	<b>(116,421)</b>	(66,928)
Proceeds from sales of fixed assets	<b>157</b>	10,657
<b>Net cash from (used in) investing activities</b>	<b>1,607,142</b>	(359,059)
<b><u>FINANCING ACTIVITIES</u></b>		
Dividends paid	<b>(269,437)</b>	(173,523)
Term loan	<b>-</b>	1,312,500
<b>Net cash (used in) from financing activities</b>	<b>(269,437)</b>	1,138,977
<b>Decrease in cash and cash equivalents</b>	<b>(1,867,706)</b>	(6,672,451)
Cash and cash equivalents at the beginning of the period	<b>4,638,190</b>	10,187,697
<b>Cash and cash equivalents at the end of the period</b>	<b>2,770,484</b>	3,515,246
	6	
<b><u>Supplemental non cash information</u></b>		
Net changes in fair value and cash flow hedges	<b>(121,762)</b>	(13,175)

The accompanying notes 1 to 9 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) and International Financial Reporting Standards (IFRS). 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 except for the measurement at fair value of derivatives, financial assets and liabilities held for trading, available for sale and fair value through Income Statement (FVIS). In addition, assets or liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The Interim condensed financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand.

Except for the changes explained in note 1(b) 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, 2005.

All Shariah approved (or non-interest based) banking products are accounted for using IFRS and are in conformity with the accounting policies used in the preparation of the Bank's annual financial statements for the year ended December 31, 2005

### b) Change in accounting policies

The bank has implemented the amendments to International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement – The Fair Value Option – effective January 1, 2006 with retrospective effect, wherever applicable. Following this amendment, the revised IAS 39 requires that the use of the FVIS classification be restricted and shall be used only as permitted by the IAS.

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, 2006</b> <b>(Unaudited)</b>	December 31, 2005 (Audited)	June 30, 2005 (Unaudited)
Held at FVIS	<b>540,624</b>	307,159	203,447
Available for sale	<b>5,020,977</b>	5,145,865	4,434,252
Held at amortised cost, other	<b>12,188,279</b>	13,970,649	15,283,752
Held to maturity	<b>931,956</b>	998,977	1,692,069
<b>Total</b>	<b>18,681,836</b>	20,422,650	21,613,520

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes to the Interim Condensed Financial Statements (continued)**  
**For the six months ended June 30, 2006 and 2005**  
(SAR'000)

**3. Euro Medium Term Notes**

In its meeting held on 13/6/2006, the ordinary General Assembly approved the issuance of Euro Medium Term Notes (EMTN) and authorized the Board of Directors to take all the necessary actions. The Bank is in the process of completing the issue

**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.

	June 30, 2006 (Unaudited)			December 31, 2005 (Audited)			June 30, 2005 (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	30,528	25,819	6,329,330	14,091	10,707	5,176,395	2,017	799	3,583,895
Forward foreign exchange contracts	138,046	95,408	20,601,141	124,933	65,865	13,944,716	165,143	90,971	22,746,592
Currency options	25,281	24,970	779,114	25,373	24,811	997,809	30,131	27,174	2,807,953
Other	1,858	1,858	100,000	1,662	1,662	100,000	1,811	1,811	100,000
<b>Derivatives held as fair value hedges:</b>									
Commission rate swaps	24,825	10,308	6,657,980	15,544	35,540	11,367,588	8,777	55,442	3,779,820
<b>Derivatives held as cash flow hedges:</b>									
Commission rate swaps	58	14,225	817,500	1,681	9,571	817,500	9,869	3,303	1,393,750
<b>Total</b>	<b>220,596</b>	<b>172,588</b>	<b>35,285,065</b>	<b>183,284</b>	<b>148,156</b>	<b>32,404,008</b>	<b>217,748</b>	<b>179,500</b>	<b>34,412,010</b>

**5. Credit related commitments and contingencies**

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

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)	June 30, 2005 (Unaudited)
Letters of credit	3,942,932	2,869,476	2,485,614
Letters of guarantee	6,195,285	5,153,598	5,271,081
Acceptances	1,201,085	1,074,943	901,099
Irrevocable commitments to extend credit	1,651,571	2,107,947	1,844,251
Other	403,588	439,236	467,646
<b>Total</b>	<b>13,394,461</b>	<b>11,645,200</b>	<b>10,969,691</b>

**ARAB NATIONAL BANK – Saudi Joint Stock Company**  
**Notes to the Interim Condensed Financial Statements (continued)**  
**For the six months ended June 30, 2006 and 2005**  
(SAR'000)

**6. Cash and cash equivalents**

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

	<b>June 30, 2006 (Unaudited)</b>	December 31, 2005 (Audited)	June 30, 2005 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	<b>595,447</b>	704,515	640,005
Due from banks and other financial institutions maturing within ninety days	<b>2,175,037</b>	3,933,675	2,875,241
<b>Total</b>	<b>2,770,484</b>	4,638,190	3,515,246

**7. 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.

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, 2006 and 2005, its total operating income, expenses and net income for the six month periods then ended, by business segments, are as follows:



**7- Business segments (cont'd)**

	<b>June 30, 2006 (Unaudited)</b>			
	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury banking</b>	<b>Total</b>
Total assets	<b>21,979,233</b>	<b>24,577,639</b>	<b>22,315,816</b>	<b>68,872,688</b>
Total liabilities	<b>25,073,595</b>	<b>31,869,640</b>	<b>4,993,725</b>	<b>61,936,960</b>
Total operating income	<b>1,408,834</b>	<b>338,064</b>	<b>249,900</b>	<b>1,996,798</b>
Total operating expenses	<b>493,736</b>	<b>122,846</b>	<b>26,363</b>	<b>642,945</b>
Net income	<b>915,098</b>	<b>215,218</b>	<b>223,537</b>	<b>1,353,853</b>

	<b>June 30, 2005 (Unaudited)</b>			
	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury banking</b>	<b>Total</b>
Total assets	15,667,351	20,419,520	25,816,973	61,903,844
Total liabilities	22,964,311	25,975,120	7,564,523	56,503,954
Total operating income	1,121,951	257,869	166,569	1,546,389
Total operating expenses	420,723	204,524	29,554	654,801
Net income	701,228	53,345	137,015	891,588

**8. Share capital**

During the period ended June 30, 2006, 15 million shares of SAR 50 each were issued after approval by the shareholders at their extraordinary general assembly meeting held on March 12, 2006. Furthermore, 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, 2006, the Bank has 325 million shares of SAR 10 each issued and outstanding, following a five to one share split on April 8, 2006.

Earnings per share for the periods ended June 30, 2006 and 2005 are calculated by dividing the net income for the period by 325 million shares to give a retroactive effect of change in the number of shares as a result of the share split .

**9. Interim dividend, Zakat and Taxation**

The Board of Directors has declared interim gross dividend in respect of 2006 of SAR 358,3 million (2005-SAR 272,9). Zakat relating to Saudi shareholders, amounting to approximately SAR 20 million (2005-SAR 13,8 million) will be deducted from their share of the dividend. This will result in net dividend to Saudi shareholder of SAR 1 per share (2005-SAR 1). The income tax liability of the foreign shareholder will be deducted from their share of the dividend.