

## 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 September 2003, the related statements of income for the three month and nine month periods ended 30 September 2003, and the statements of changes in shareholders' equity and cash flows for the nine 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.

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



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



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



Bakr A. Abulkhair  
Certified Public Accountant  
Registration No. 101



10 Shaban 1424H  
(6 October 2003)

**ARAB NATIONAL BANK  
BALANCE SHEET**

| <b>As at</b>                                      | <b>30 September<br/>2003<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2002<br>(Audited)<br>SAR'000 | 30 September<br>2002<br>(Unaudited)<br>SAR'000 |
|---|--|---|--|
|   | <b>Note</b>  |   |  |
| <b>ASSETS</b>                                     |  |   |  |
| Cash and balances with SAMA                       | <b>1,624,640</b>   | 3,134,437                                   | 1,727,106                                      |
| Due from banks and other financial institutions   | <b>3,676,470</b>   | 4,386,952                                   | 4,439,083                                      |
| Investments, net                                  | 2 <b>21,964,372</b>                                      | 19,065,267                                  | 19,386,457                                     |
| Loans and advances, net                           | <b>19,030,913</b>  | 16,015,709                                  | 15,738,084                                     |
| Other real estate                                 | <b>203,303</b>   | 142,895                                     | 242,918  |
| Fixed assets, net                                 | <b>316,029</b>   | 298,975                                     | 303,987  |
| Other assets                                      | <b>1,071,037</b>   | 1,254,469                                   | 1,069,852                                      |
| <b>Total assets</b>                               | <b>47,886,764</b>  | 44,298,704                                  | 42,907,487                                     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |  |   |  |
| <b>Liabilities</b>                                |  |   |  |
| Due to banks and other financial institutions     | <b>10,512,941</b>  | 10,040,729                                  | 8,902,257                                      |
| Customer deposits                                 | <b>31,235,660</b>  | 28,166,307                                  | 28,215,047                                     |
| Other liabilities                                 | <b>1,920,709</b>   | 2,543,366                                   | 1,938,829                                      |
| <b>Total liabilities</b>                          | <b>43,669,310</b>  | 40,750,402                                  | 39,056,133                                     |
| <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>172,101</b>   | 92,554                                      | 76,025   |
| Retained earnings                                 | <b>595,353</b>   | 5,748                                       | 475,329  |
| <b>Total shareholders' equity</b>                 | <b>4,217,454</b>   | 3,548,302                                   | 3,851,354                                      |
| <b>Total liabilities and shareholders' equity</b> | <b>47,886,764</b>  | 44,298,704                                  | 42,907,487                                     |

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>Nine months ended</b>     |                      |
|---|------------------------------|----------------------|------------------------------|----------------------|
|   | <b>30 September<br/>2003</b> | 30 September<br>2002 | <b>30 September<br/>2003</b> | 30 September<br>2002 |
|   | <b>SAR'000</b>               | SAR'000              | <b>SAR'000</b>               | SAR'000              |
| Special commission income                         | <b>499,607</b>               | 495,961              | <b>1,483,981</b>             | 1,444,570            |
| Special commission expense                        | <b>111,703</b>               | 128,893              | <b>350,535</b>               | 390,736              |
| <b>Net special commission income</b>              | <b>387,904</b>               | 367,068              | <b>1,133,446</b>             | 1,053,834            |
| Fees from banking services, net                   | <b>80,046</b>                | 39,105               | <b>200,289</b>               | 124,658              |
| Exchange income                                   | <b>22,752</b>                | 22,153               | <b>71,473</b>                | 58,301               |
| Trading income (loss)                             | <b>2,062</b>                 | (841)                | <b>1,851</b>                 | (786)                |
| Dividend income                                   | -                            | -                    | -                            | 18                   |
| Gains on investments, net                         | <b>88</b>                    | 67                   | <b>728</b>                   | 38,358               |
| Other operating income                            | <b>1,124</b>                 | 2,106                | <b>4,858</b>                 | 9,261                |
| <b>Total operating income</b>                     | <b>493,976</b>               | 429,658              | <b>1,412,645</b>             | 1,283,644            |
| Salaries and employee related expenses            | <b>118,851</b>               | 108,534              | <b>344,223</b>               | 328,038              |
| Rent and premises related expenses                | <b>13,252</b>                | 11,785               | <b>36,824</b>                | 32,885               |
| Depreciation and amortization                     | <b>16,078</b>                | 16,211               | <b>47,875</b>                | 47,873               |
| Other general and administrative expenses         | <b>62,701</b>                | 51,362               | <b>186,610</b>               | 176,524              |
| Provision for possible credit losses              | <b>70,753</b>                | 90,471               | <b>207,451</b>               | 245,254              |
| Other operating expenses                          | -                            | -                    | <b>57</b>                    | 185                  |
| <b>Total operating expenses</b>                   | <b>281,635</b>               | 278,363              | <b>823,040</b>               | 830,759              |
| <b>Net income for the period</b>                  | <b>212,341</b>               | 151,295              | <b>589,605</b>               | <b>452,885</b>       |
| <b>Earnings per share for the period (in SAR)</b> | <b>5.90</b>                  | <b>4.20</b>          | <b>16.38</b>                 | 12.58                |

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<br/>capital<br/>SAR'000</u> | <u>Statutory<br/>reserve<br/>SAR'000</u> | <u>General<br/>reserve<br/>SAR'000</u> | <u>Other<br/>reserves<br/>SAR'000</u> | <u>Retained<br/>earnings<br/>SAR'000</u> | <u>Total<br/>SAR'000</u> |
|--|--------------------------------------|--|--|---------------------------------------|--|--------------------------|
| <b>For the nine months ended<br/>30 September 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>589,605</b>                           | <b>589,605</b>           |
| Net changes in fair value and cash flow hedges         | -                                    | -  | -                                      | <b>79,547</b>                         | -  | <b>79,547</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>172,101</b></u>                 | <u><b>595,353</b></u>                    | <u><b>4,217,454</b></u>  |
| <b>For the nine months ended<br/>30 September 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                              | -                                    | -  | -                                      | -                                     | 452,885                                  | 452,885                  |
| Net changes in fair value and cash flow hedges         | -                                    | -  | -                                      | 32,360                                | -  | 32,360                   |
| Balance at end of the period                           | <u>1,800,000</u>                     | <u>1,500,000</u>                         | <u>-</u>                               | <u>76,025</u>                         | <u>475,329</u>                           | <u>3,851,354</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 nine months ended 30 September

|  | <b>Note</b> | <b>2003</b><br><b>SAR'000</b> | 2002<br>SAR'000 |
|--|-------------|-------------------------------|-----------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>   |             |                               |                 |
| <b>Net income for the period</b>   |             | <b>589,605</b>                | 452,885         |
| <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>(28,605)</b>               | 4,060           |
| Gains on investments   |             | <b>(728)</b>                  | (38,358)        |
| Depreciation and amortization  |             | <b>47,875</b>                 | 47,873          |
| Gains on disposal of fixed assets  |             | <b>(605)</b>                  | (1,454)         |
| Provision for possible credit losses   |             | <b>207,451</b>                | 245,254         |
|  |             | <b>814,993</b>                | 710,260         |
| <b>Net (increase) decrease in operating assets:</b>  |             |                               |                 |
| Statutory deposits with SAMA   |             | <b>(126,529)</b>              | (74,922)        |
| Trading securities   |             | <b>(95,604)</b>               | -               |
| Loans and advances   |             | <b>(3,218,846)</b>            | (2,121,845)     |
| Other real estate  |             | <b>(60,408)</b>               | 11,687          |
| Other assets   |             | <b>210,394</b>                | 258,177         |
| <b>Net increase (decrease) in operating liabilities:</b>                                   |             |                               |                 |
| Due to banks and other financial institutions  |             | <b>472,212</b>                | 763,950         |
| Customer deposits  |             | <b>3,075,494</b>              | 2,071,351       |
| Other liabilities  |             | <b>(192,677)</b>              | 226,955         |
|  |             | <b>879,029</b>                | 1,845,613       |
| <b>Net cash from operating activities</b>  |             | <b>879,029</b>                | 1,845,613       |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>   |             |                               |                 |
| Proceeds from sale and matured investments   |             | <b>2,279,975</b>              | 7,706,866       |
| Purchase of investments  |             | <b>(5,000,889)</b>            | (7,766,016)     |
| Purchase of fixed assets   |             | <b>(65,390)</b>               | (72,101)        |
| Proceeds from sale of fixed assets   |             | <b>1,066</b>                  | 1,459           |
|  |             | <b>(2,785,238)</b>            | (129,792)       |
| <b>Net cash used in investing activities</b>   |             | <b>(2,785,238)</b>            | (129,792)       |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>   |             |                               |                 |
| Dividends paid   |             | <b>(440,599)</b>              | (338,674)       |
|  |             | <b>(440,599)</b>              | (338,674)       |
| <b>Net cash used in financing activities</b>   |             | <b>(440,599)</b>              | (338,674)       |
| <b>(Decrease) increase in cash and cash equivalents</b>                                    |             | <b>(2,346,808)</b>            | 1,377,147       |
| 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>3,853,656</b>              | 5,039,206       |
| <u>Supplemental non-cash information</u>   |             |                               |                 |
| Net changes in fair value and cash flow hedges   |             | <b>79,547</b>                 | 32,360          |

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 nine months ended 30 September 2003, 2002**

**1. Accounting policies**

The Bank follows the Accounting Standards for Financial Institutions 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 30 September 2003<br/>(Unaudited)</b> | At 31 December 2002<br>(Audited) | At 30 September 2002<br>(Unaudited) |
|--------------------|---|----------------------------------|-------------------------------------|
| Held for trading   | <b>95,604</b>                               | -                                | -                                   |
| Available for sale | <b>2,927,316</b>                            | 3,192,801                        | 3,787,981                           |
| Originated debt    | <b>16,112,260</b>                           | 13,275,384                       | 12,924,217                          |
| Held to maturity   | <b>2,829,192</b>                            | 2,597,082                        | 2,674,259                           |
| <b>Total</b>       | <b>21,964,372</b>                           | 19,065,267                       | 19,386,457                          |

**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 30 September 2003<br/>(Unaudited)</b> |                                |                            | At 31 December 2002<br>(Audited) |                        |                    | At 30 September 2002<br>(Unaudited) |                        |                    |
|------------------------------------|---|--------------------------------|----------------------------|----------------------------------|------------------------|--------------------|-------------------------------------|------------------------|--------------------|
|                                    | <b>Positive<br/>fair value</b>              | <b>Negative<br/>fair value</b> | <b>Notional<br/>amount</b> | Positive<br>fair value           | Negative<br>fair value | Notional<br>amount | Positive<br>fair value              | Negative<br>fair value | Notional<br>Amount |
| <b>Held for trading:</b>           |   |                                |                            |                                  |                        |                    |                                     |                        |                    |
| Commission rate swaps              | <b>48,267</b>                               | <b>47,991</b>                  | <b>2,223,750</b>           | 76,285                           | 77,593                 | 4,448,750          | 82,346                              | 83,038                 | 4,574,669          |
| Forward rate agreements            | -   | -                              | -                          | -                                | -                      | -                  | -                                   | 80                     | 202,644            |
| Forward foreign exchange contracts | <b>266,497</b>                              | <b>187,328</b>                 | <b>17,038,453</b>          | 203,261                          | 116,963                | 11,711,108         | 178,892                             | 93,331                 | 16,001,715         |
| Currency options                   | <b>78,114</b>                               | <b>76,765</b>                  | <b>5,669,222</b>           | 86,732                           | 84,438                 | 5,942,683          | 58,034                              | 55,725                 | 6,153,812          |
| Other                              | <b>21</b>                                   | -                              | <b>3,387</b>               | 21                               | 150                    | 77,787             | -                                   | 150                    | 75,000             |
| <b>Held as fair value hedges:</b>  |   |                                |                            |                                  |                        |                    |                                     |                        |                    |
| Commission rate swaps              | <b>1,667</b>                                | <b>101,809</b>                 | <b>6,177,351</b>           | 8,670                            | 121,660                | 5,983,315          | 9,228                               | 123,659                | 6,425,019          |
| <b>Held as cash flow hedges:</b>   |   |                                |                            |                                  |                        |                    |                                     |                        |                    |
| Commission rate swaps              | <b>45,444</b>                               | -                              | <b>752,500</b>             | 41,761                           | -                      | 752,500            | 37,526                              | 412                    | 752,500            |
| <b>Total</b>                       | <b>440,010</b>                              | <b>413,893</b>                 | <b>31,864,663</b>          | 416,730                          | 400,804                | 28,916,143         | 366,026                             | 356,395                | 34,185,359         |

#### 4. Credit related commitments and contingencies

The analysis of commitments and contingencies is as follows:

| <b>SAR'000</b>                           | <b>At 30 September<br/>2003<br/>(Unaudited)</b> | At 31 December<br>2002<br>(Audited) | At 30 September<br>2002<br>(Unaudited) |
|--|---|-------------------------------------|--|
| Letters of credit                        | <b>1,946,808</b>                                | 1,122,658                           | 1,075,568                              |
| Letters of guarantee                     | <b>3,849,296</b>                                | 3,406,644                           | 3,358,908                              |
| Acceptances                              | <b>653,467</b>                                  | 399,790                             | 433,467                                |
| Irrevocable commitments to extend credit | <b>2,398,776</b>                                | 2,831,044                           | 2,711,980                              |
| Other                                    | <b>557,803</b>                                  | 698,416                             | 694,072                                |
| <b>Total</b>                             | <b>9,406,150</b>                                | 8,458,552                           | 8,273,995                              |

#### 5. Cash and cash equivalents

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

| <b>SAR'000</b>  | <b>30 September<br/>2003<br/>(Unaudited)</b> | 31 December<br>2002<br>(Audited) | 30 September<br>2002<br>(Unaudited) |
|---|--|----------------------------------|-------------------------------------|
| Cash and balances with SAMA excluding statutory deposits                    | <b>427,186</b>                               | 2,063,512                        | 600,123                             |
| Due from banks and other financial institutions maturing within ninety days | <b>3,426,470</b>                             | 4,136,952                        | 4,439,083                           |
| <b>Total</b>  | <b>3,853,656</b>                             | 6,200,464                        | 5,039,206                           |

#### 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 September 2003 and 2002, its total operating income and expenses, and its net income for the nine month periods then ended, by business segment, are as follows:

| <b>30 September 2003 (Unaudited)</b> |                           |                              |                             |                   |
|--------------------------------------|---------------------------|------------------------------|-----------------------------|-------------------|
| <b>SAR'000</b>                       | <b>Retail<br/>banking</b> | <b>Corporate<br/>banking</b> | <b>Treasury<br/>banking</b> | <b>Total</b>      |
| Total assets                         | <b>6,819,871</b>          | <b>14,449,381</b>            | <b>26,617,512</b>           | <b>47,886,764</b> |
| Total liabilities                    | <b>16,123,572</b>         | <b>2,839,841</b>             | <b>24,705,897</b>           | <b>43,669,310</b> |
| Total operating income               | <b>946,021</b>            | <b>290,849</b>               | <b>175,775</b>              | <b>1,412,645</b>  |
| Total operating expenses             | <b>615,360</b>            | <b>174,872</b>               | <b>32,808</b>               | <b>823,040</b>    |
| Net income                           | <b>330,661</b>            | <b>115,977</b>               | <b>142,967</b>              | <b>589,605</b>    |

| <b>30 September 2002 (Unaudited)</b> |                           |                              |                             |              |
|--------------------------------------|---------------------------|------------------------------|-----------------------------|--------------|
| <b>SAR'000</b>                       | <b>Retail<br/>banking</b> | <b>Corporate<br/>banking</b> | <b>Treasury<br/>banking</b> | <b>Total</b> |
| Total assets                         | 5,273,499                 | 12,949,200                   | 24,684,788                  | 42,907,487   |
| Total liabilities                    | 15,968,019                | 3,513,077                    | 19,575,037                  | 39,056,133   |
| Total operating income               | 865,382                   | 252,428                      | 165,834                     | 1,283,644    |
| Total operating expenses             | 581,977                   | 219,771                      | 29,011                      | 830,759      |
| Net income                           | 283,405                   | 32,657                       | 136,823                     | 452,885      |