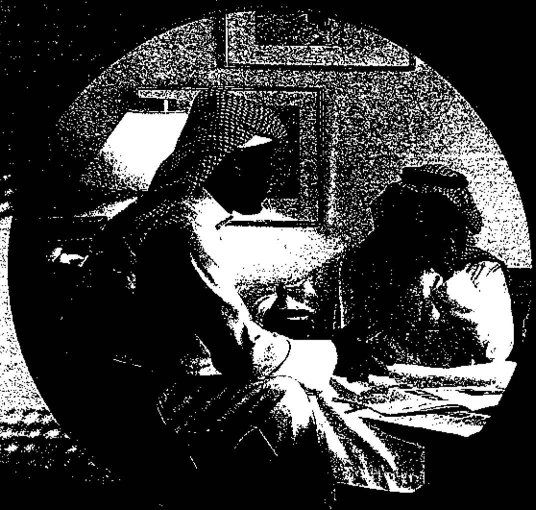
البنك العربي الوطني
arab national bank



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ANNUAL REPORT 2002

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FINANCIAL HIGHLIGHTS

For the years ended December 1998 - 2002 — Saudi Riyals in Millions

	1998	1999	2000	2001	**2002**
Net Commission Income	901	920	1,115	1,274	**1,423**
Net Income before Provisions	504	550	688	789	**906**
Provisions for Loans and Collateral	203	220	283	303	**322**
Net Income	301	330	405	486	**584**
Revenue to Expense Ratio	1.82	1.76	2.03	2.06	**2.07**
Return on Assets (ROA)	0.88%	0.94%	1.10%	1.23%	**1.32%**
Return on Equity (ROE)	10%	11%	13%	14%	**16%**
ROE before Loan loss provision	17%	18%	22%	23%	**26%**
Provisions / NPL Coverage Ratio	50%	53%	66%	79%	**99%**
Investments	13,296	14,066	16,375	19,251	**19,065**
Loans and Advances	10,049	12,684	13,210	13,867	**16,016**
Total Assets	34,169	35,191	36,946	39,469	**44,299**
Customer Deposits	22,870	24,273	24,704	26,128	**28,166**
Total Equity	2,983	3,066	3,160	3,366	**3,548**
Saudisation Ratio	72%	74%	75%	78%	**81%**
Assets Under Management	1,573	2,034	2,070	2,566	**3,508**

ERNST & YOUNG

Deloitte & Touche
Bakr Abulkhair & Co.

AUDITORS' REPORT

TO: **THE SHAREHOLDERS OF ARAB NATIONAL BANK**
(SAUDI JOINT STOCK COMPANY)

We have audited the balance sheet of Arab National Bank as at December 31, 2002 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended including the related notes. These financial statements are the responsibility of the Bank's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of Arab National Bank as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards, and

- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

Ernst & Young
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Riyadh: Dhul Qadah 10, 1423H
January 13, 2003

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محاسبون قانونيون ترخيص رقم ٩٦ Lic. 96 C.P.A
Deloitte & Touche Bakr Abulkhair & Co.

BALANCE SHEET
AS AT DECEMBER 31, 2002 AND 2001

	Notes	2002 SAR'000	2001 SAR'000
ASSETS			
Cash and balances with SAMA	3	**3,134,437**	1,899,122
Due from banks and other financial institutions	4	**4,386,952**	2,814,998
Investments, net	5	**19,065,267**	19,251,151
Loans and advances, net	6	**16,015,709**	13,866,914
Other real estate		**142,895**	254,605
Fixed assets, net	7	**298,975**	279,763
Other assets	8	**1,254,469**	1,102,771
Total assets		**44,298,704**	39,469,324
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	**10,040,729**	8,138,307
Customer deposits	11	**28,166,307**	26,147,819
Other liabilities	12	**2,543,366**	1,817,089
Total liabilities		**40,750,402**	36,103,215
SHAREHOLDERS' EQUITY			
Share capital	13	**1,800,000**	1,500,000
Statutory reserve	14	**1,650,000**	1,500,000
General reserve	14	**-**	300,000
Other reserves	15	**92,554**	43,665
Retained earnings		**5,748**	22,444
Total shareholders' equity		**3,548,302**	3,366,109
Total liabilities and shareholders' equity		**44,298,704**	39,469,324

The accompanying notes form an integral part of these financial statements

STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Notes	2002 SAR'000	2001 SAR'000
Special commission income	17	**1,954,023**	2,208,372
Special commission expense	17	**531,113**	934,654
Net special commission income		**1,422,910**	1,273,718
Fees from banking services, net	18	**171,514**	177,127
Exchange income		**77,410**	62,088
Trading (loss) income	19	**(442)**	4,703
Dividend income	20	**18**	1,067
Gains on investments, net	21	**36,020**	4,564
Other operating income	22	**10,976**	7,771
Total operating income		**1,718,406**	1,531,038
Salaries and employee related expenses		**445,626**	408,616
Rent and premises related expenses		**44,841**	37,820
Depreciation and amortization	7	**63,906**	63,807
Other general and administrative expenses		**257,515**	231,943
Provision for possible credit losses	6	**221,631**	302,526
Other operating expenses	23	**100,859**	172
Total operating expenses		**1,134,378**	1,044,884
Net income		**584,028**	486,154
Earnings per share (in SAR)	24	**16.22**	13.50

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Notes	Share capital SAR'000	Statutory reserve SAR'000	General reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Total SAR'000
2002							
Balance at beginning of the year		**1,500,000**	**1,500,000**	**300,000**	**43,665**	**22,444**	**3,366,109**
Bonus share issue	14	**300,000**	-	**(300,000)**	-	-	-
Net income		-	-	-	-	**584,028**	**584,028**
Transfer to statutory reserve	14	-	**150,000**	-	-	**(150,000)**	-
Proposed gross dividend	25	-	-	-	-	**(449,420)**	**(449,420)**
Net changes in fair value and cash flow hedges	15	-	-	-	**48,889**	**(1,304)**	**47,585**
Balance at end of the year		**1,800,000**	**1,650,000**	-	**92,554**	**5,748**	**3,548,302**
2001							
Balance at beginning of the year		1,500,000	1,500,000	155,000	-	5,421	3,160,421
Effect of implementation of IAS 39 at January 1, 2001		-	-	-	-	18,080	18,080
Net income		-	-	-	-	486,154	486,154
Transfer to general reserve	14	-	-	145,000	-	(145,000)	-
Proposed gross dividend	25	-	-	-	-	(342,522)	(342,522)
Net changes in fair value and cash flow hedges	15	-	-	-	43,665	311	43,976
Balance at end of the year		1,500,000	1,500,000	300,000	43,665	22,444	3,366,109

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Notes	2002 SAR'000	2001 SAR'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net income		**584,028**	486,154
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortization of premium on investments, net		**(4,794)**	6,857
Gains on investments		**(36,020)**	(4,564)
Depreciation and amortization		**63,906**	63,807
(Gains) losses on disposal of fixed assets		**(1,551)**	172
Provision for possible credit losses		**221,631**	302,526
		827,200	854,952
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA	3	**(18,864)**	(142,512)
Due from banks and other financial institutions maturing after ninety days		**(250,000)**	-
Loans and advances		**(2,377,591)**	(967,900)
Other real estate		**111,710**	150
Other assets		**128,912**	19,017
Net increase in operating liabilities:			
Due to banks and other financial institutions		**1,902,422**	552,161
Customer deposits		**2,022,286**	1,414,680
Other liabilities		**334,611**	59,960
Net cash from operating activities		**2,680,686**	1,790,508
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from matured and sale of investments		**8,533,783**	3,089,920
Purchase of investments		**(8,254,894)**	(5,829,634)
Purchase of fixed assets		**(83,178)**	(60,689)
Proceeds from sale of fixed assets		**1,611**	290
Net cash from (used in) investing activities		**197,322**	(2,800,113)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(339,603)**	(309,007)
Net cash used in financing activities		**(339,603)**	(309,007)
Increase (decrease) in cash and cash equivalents		**2,538,405**	(1,318,612)
Cash and cash equivalents at beginning of the year		**3,662,059**	4,980,671
Cash and cash equivalents at end of the year	26	**6,200,464**	3,662,059
Supplemental non-cash information			
Net changes in fair value and cash flow hedges		**47,585**	62,056

The accompanying notes form an integral part of these financial statements

1. GENERAL

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated 18/7/1399H (June 13, 1979). The Bank commenced business on February 2, 1980 when it took over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated 1/3/1400H (January 19, 1980) through its 116 branches (2001: 116 branches) in the Kingdom of Saudi Arabia employing 1,977 employees (2001: 1,940) and one branch in the United Kingdom. The Bank's Head Office is located at the following address:

Arab National Bank
P.O. Box 56921
Riyadh 11564, Saudi Arabia

The objectives of the Bank are to provide a full range of banking services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of presentation

The Bank follows the accounting standards for commercial banks promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards. The Bank also prepares its financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, trading and available for sale investment securities. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in fair value hedging relationship) are carried at fair value to the extent of risk being hedged.

The accounting policies are consistent with those used in the previous year.

b) Trade date accounting

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date on which the Bank commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

c) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in assets where the fair value is positive and in liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to income for the period and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or a forecasted transaction and firm commitment that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity. The ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of an asset or a liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the statement of income for the period.

d) Foreign Currencies

The financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date.

Realized and unrealized gains or losses on exchange are credited or charged to operating income.

e) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts or when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

f) Revenue recognition

Special commission income and expense are recognized in the income statement on the accrual basis and include premiums amortized and discounts accreted. Fees and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared.

g) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for trading, originated debt securities, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between the sale and the repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement. Amounts paid under reverse repo agreements are included in cash and balances with SAMA, due from banks and other financial institutions or loans and advances, as appropriate. The difference between the purchase and the resale prices is treated as special commission income and is accrued over the life of the reverse repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date i.e. reverse repos, are not recognized in the balance sheet, as the Bank does not obtain control over the assets.

h) Investments

All investment securities are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield method and are taken to special commission income.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted mid market prices at the close of business on the balance sheet date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

i) Trading securities

Securities, which are held for trading, are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises.

ii) Available for sale

Investments which are classified as "available for sale" are subsequently measured at fair value. For available for sale investments where fair value has not been hedged, any gain or loss arising from a change in their fair value is recognized directly in other reserves under shareholders' equity until the investments are derecognized or impaired, at which time cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

Available for sale investments where fair value cannot be reliably measured are carried at amortized cost.

iii) Originated debt securities

Securities, which are purchased directly from the issuer other than those purchased with the intent to be sold immediately or in the short term are classified as originated debt securities. Originated debt securities where fair value has not been hedged are stated at amortized cost, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

iv) Held to maturity

Investments which have fixed or determinable payments which are intended to be held to maturity; are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired.

i) Loans and advances

All loans and advances are initially measured at cost.

Loans and advances, which are held for trading, are subsequently measured at fair value and gains or losses arising from changes in fair value are included in the statement of income in the period in which they arise.

Loans and advances originated by the Bank for which fair value has not been hedged and acquired loans that are to be held to maturity are stated at cost less any amount written off and provisions for impairment.

Loans and advances, which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in other reserves under shareholders' equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and special commission.

(SAUDI RIYALS IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions for possible credit losses are based upon the management's assessment of the adequacy of the provisions on a periodic basis. The assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances.

For presentation purposes, provision for possible credit losses is deducted from loans and advances to customers.

j) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts as follows:

For financial assets at amortized cost - the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and

For financial assets at fair value - where a loss has been recognized directly under shareholders' equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in shareholders' equity is transferred to the statement of income.

Once a financial asset has been written down to its estimated recoverable amount, commission income is thereafter recognized based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Specific provisions are evaluated individually for all different types of loans and advances, whereas additional provisions are evaluated on a group basis.

In addition to specific provisions for impaired loans and advances, an additional provision is created for probable losses where there is objective evidence that potential losses are present at the balance sheet date. These are estimated based upon credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate as well as the experience and the historical default patterns that are embedded in the components of the credit portfolio.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

k) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is stated at the lower of net realizable value of due loans and advances or the current fair value of the related properties.

Properties are revalued on a periodic basis and unrealized losses on revaluation and losses or gains on disposal are charged or credited to operating expenses or operating income, as appropriate.

l) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other fixed assets is depreciated and amortized using the straightline method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	2.5 to 5 years

m) Deposits and money market placements

All money market deposits, placements and customer deposits are initially recognized at cost, being the fair value of the consideration received. Subsequently all commission bearing deposits and money market placements, other than those held for trading or where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortized on a systematic basis to maturity and are taken to special commission income or expense.

Deposits and money market placements, which are held for trading, are subsequently measured at fair value and any gain or loss from a change in fair value is included in the statement of income in the period in which it arises. Deposits and money market placements for which there is an associated fair value relationship are adjusted for fair value to the extent hedged and the resultant gain or loss is recognized in the statement of income.

For deposits and money market placements carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

n) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions maturing within ninety days.

3. CASH AND BALANCES WITH SAMA

	2002	2001
Cash in hand	**427,078**	324,014
Statutory deposit	**1,070,925**	1,052,061
Reverse Repo	**1,626,932**	519,968
Other balances	**9,502**	3,079
Total	**3,134,437**	1,899,122

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each month.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2002	2001
Current accounts	**229,044**	186,608
Money market placements	**4,157,908**	2,628,390
Total	**4,386,952**	2,814,998

(SAUDI RIYALS IN THOUSANDS)

5. INVESTMENTS, NET

	Domestic		International		Total	
a) Available for sale	**2002**	2001	**2002**	2001	**2002**	2001
Fixed rate securities	**747,619**	883,759	**1,681,857**	1,882,642	**2,429,476**	2,766,401
Floating rate notes	**-**	-	**356,654**	535,539	**356,654**	535,539
Equities	**728**	11,525	**282**	1,252	**1,010**	12,777
Other	**71,496**	82,099	**334,165**	235,380	**405,661**	317,479
Available for sale investments, net	**819,843**	977,383	**2,372,958**	2,654,813	**3,192,801**	3,632,196
b) Originated debt securities						
Fixed rate securities	**9,619,410**	8,646,016	**639,098**	470,260	**10,258,508**	9,116,276
Floating rate notes	**2,400,000**	3,200,000	**616,876**	356,272	**3,016,876**	3,556,272
Originated debt securities, net	**12,019,410**	11,846,016	**1,255,974**	826,532	**13,275,384**	12,672,548
c) Held to maturity						
Fixed rate securities	**2,597,082**	2,821,407	**-**	-	**2,597,082**	2,821,407
Floating rate notes	**-**	125,000	**-**	-	**-**	125,000
Held to maturity investments, net	**2,597,082**	2,946,407	**-**	-	**2,597,082**	2,946,407
Investments, net	**15,436,335**	15,769,806	**3,628,932**	3,481,345	**19,065,267**	19,251,151

d) The analyses of the composition of investment securities are as follows:

	2002			2001		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**2,320,955**	**12,964,111**	**15,285,066**	2,132,509	12,571,575	14,704,084
Floating rate notes	**222,792**	**3,150,738**	**3,373,530**	464,655	3,752,156	4,216,811
Equities	**-**	**1,010**	**1,010**	11,011	1,766	12,777
Other	**-**	**405,661**	**405,661**	-	317,479	317,479
Investments, net	**2,543,747**	**16,521,520**	**19,065,267**	2,608,175	16,642,976	19,251,151

Unquoted fixed and floating rate investments are mainly Saudi Government Development Bonds.

e) The analyses of unrealized gains and losses and fair values of originated debt securities net of hedging and held to maturity investments are as follows:

	2002				2001			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Originated debt securities								
Fixed rate securities	**10,258,508**	**453,338**	**9,367**	**10,702,479**	9,116,276	200,727	77,211	9,239,792
Floating rate notes	**3,016,876**	**4,529**	**-**	**3,021,405**	3,556,272	4,354	436	3,560,190
Total	**13,275,384**	**457,867**	**9,367**	**13,723,884**	12,672,548	205,081	77,647	12,799,982
Held to maturity								
Fixed rate securities	**2,597,082**	**154,046**	**-**	**2,751,128**	2,821,407	98,653	-	2,920,060
Floating rate notes	**-**	**-**	**-**	**-**	125,000	29	-	125,029
Total	**2,597,082**	**154,046**	**-**	**2,751,128**	2,946,407	98,682	-	3,045,089

f) The analysis of investments by counter-party is as follows:

	2002	2001
Government and quasi Government	**16,407,600**	16,820,403
Corporate	**213,292**	68,023
Banks and other financial institutions	**2,371,868**	2,277,892
Other	**72,507**	84,833
Total	**19,065,267**	19,251,151

Retained earnings as at December 31, 2002 includes SAR 21.2 million (2001: SAR 22.4 million) relating to available for sale investments due to the effect of the implementation of IAS39, which will be transferred to the statement of income upon realization.

(SAUDI RIYALS IN THOUSANDS)

6. LOANS AND ADVANCES, NET

a) Originated loans and advances

These are comprised of the following:

	2002	2001
Performing:		
Overdrafts	**1,282,425**	1,211,094
Credit cards	**77,435**	69,300
Commercial loans	**8,781,070**	7,497,960
Consumer loans	**4,002,326**	3,375,459
Other	**15,859**	29,883
Performing loans and advances, gross	**14,159,115**	12,183,696
Non-performing loans and advances, net	**1,172,686**	1,213,611
	15,331,801	13,397,307
Provision for possible credit losses	**(1,157,967)**	(954,367)
Originated loans and advances, net	**14,173,834**	12,442,940

b) Held to maturity loans and advances

	2002	2001
Performing commercial loans	**1,841,875**	1,423,974
Loans and advances, net	**16,015,709**	13,866,914

Non-performing loans and advances are disclosed net of accumulated commission in suspense of SAR 593.6 million (2001: SAR 495.9 million).

c) Movements in provision for possible credit losses are as follows:

	2002	2001
Balance at beginning of the year	**954,367**	911,411
Effect of the implementation of IAS 39 at January 1, 2001	**-**	16,062
Provided during the year	**221,631**	302,526
Bad debts written off	**(18,031)**	(275,632)
Balance at end of the year	**1,157,967**	954,367

Recoveries of loans and advances previously written off are included in other operating income (note 22).

d) Economic sector risk concentrations for the loans and advances is as follows:

	2002		2001	
	Performing, gross	Non performing, net	Performing, gross	Non performing, net
1. Government and quasi Government	**892,841**	**-**	824,842	–
2. Banks and financial institutions	**2,254,973**	**13,494**	1,595,530	13,763
3. Agriculture & fishing	**174,087**	**24,098**	126,164	25,766
4. Manufacturing	**3,266,519**	**185,654**	2,870,785	168,126
5. Mining & quarrying	**114,003**	**-**	3,000	–
6. Elec., water, gas & health services	**702,881**	**-**	747,119	211
7. Building and construction	**1,063,449**	**300,300**	898,110	289,770
8. Commerce	**1,741,617**	**276,525**	1,701,629	359,771
9. Transportation & communication	**333,427**	**1,534**	224,290	1,534
10. Services	**241,585**	**26,227**	324,373	27,117
11. Consumer loans and credit cards	**4,079,761**	**98,893**	3,444,759	88,598
12. Other	**1,135,847**	**245,961**	847,069	238,955
Total	**16,000,990**	**1,172,686**	13,607,670	1,213,611

7. FIXED ASSETS, NET

	Land & buildings	Leasehold improvements	Furniture equipment & vehicles	Total
Cost				
Balance at the beginning of the year 2002	**259,378**	**120,110**	**357,269**	**736,757**
Additions	**20,554**	**15,435**	**47,189**	**83,178**
Disposals	**-**	**(24)**	**(23,403)**	**(23,427)**
Balance at end of the year 2002	**279,932**	**135,521**	**381,055**	**796,508**
Accumulated depreciation				
Balance at the beginning of the year 2002	**119,201**	**72,688**	**265,105**	**456,994**
Charge for the year	**4,590**	**16,699**	**42,617**	**63,906**
Disposals	**-**	**-**	**(23,367)**	**(23,367)**
Balance at end of the year 2002	**123,791**	**89,387**	**284,355**	**497,533**
Net book value				
As at December 31, 2002	**156,141**	**46,134**	**96,700**	**298,975**
As at December 31, 2001	140,177	47,422	92,164	279,763

Furniture equipment and vehicles include information technology related assets.

(SAUDI RIYALS IN THOUSANDS)

8. OTHER ASSETS

	2002	2001
Accrued commission income - banks and other financial institutions	**1,002**	8,421
Accrued commission income - investments	**340,219**	374,939
Accrued commission income - loans and advances	**42,000**	43,945
Accrued commission income - derivatives	**126,131**	112,836
Accrued commission income - other	**3,864**	701
Positive fair value of derivatives (Note 9)	**416,730**	256,097
Other	**324,523**	305,832
Total	**1,254,469**	1,102,771

9. DERIVATIVES

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges, and changes in futures contract values are settled daily.

Forward rate agreements are individually negotiated commission rate futures that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions a well as strategic hedging against overall balance sheet exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, 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, or market risk.

(SAUDI RIYALS IN THOUSANDS)

2002	Positive fair value	Negative fair value	Notional amount Total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Commission rate swaps	**76,285**	**77,593**	**4,448,750**	**793,750**	**1,978,000**	**1,677,000**	**-**	**4,207,842**
Forward rate agreements	-	-	-	-	-	-	-	**100,900**
Forward foreign exchange contracts	**203,261**	**116,963**	**11,711,108**	**7,962,127**	**3,748,981**	-	-	**14,952,559**
Currency options	**86,732**	**84,438**	**5,942,683**	**3,360,672**	**2,582,011**	-	-	**7,954,217**
Other	**21**	**150**	**77,787**	-	**75,000**	**2,787**	-	**31,765**
Derivatives held as fair value hedges:								
Commission rates swaps	**8,670**	**121,660**	**5,983,315**	**933,920**	**3,830,500**	**920,399**	**298,496**	**6,505,484**
Derivatives held as cash flow hedges:								
Commission rate swaps	**41,761**	-	**752,500**	-	-	**752,500**	-	**619,167**
Total	**416,730**	**400,804**	**28,916,143**	**13,050,469**	**12,214,492**	**3,352,686**	**298,496**	**34,371,934**

2001	Positive fair value	Negative fair value	Notional amount Total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Commission rate swaps	67,260	60,267	3,148,750	1,200,750	18,750	1,929,250	-	6,636,928
Forward foreign exchange contracts	124,400	46,185	14,329,790	8,384,433	5,945,357	-	-	12,843,080
Currency options	51,648	51,648	6,233,704	3,845,340	2,388,364	-	-	5,556,449
Derivatives held as fair value hedges:								
Commission rates swaps	12,789	80,828	6,599,936	1,600,000	3,685,000	1,078,697	236,239	4,851,250
Derivatives held as cash flow hedges:								
Commission rate swaps	-	-	352,500	-	-	352,500	-	29,375
Total	256,097	238,928	30,664,680	15,030,523	12,037,471	3,360,447	236,239	29,917,082

The tables below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

2002

Description of hedged items	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**1,398,435**	**1,298,033**	Fair value	Commission rate swap	**-**	**119,817**
Fixed commission rate loans	**1,347,181**	**1,347,167**	Fair value	Commission rate swap	**963**	**977**
Fixed commission rate deposits	**2,629,841**	**2,623,000**	Fair value	Commission rate swap	**7,707**	**866**
Floating commission rate investments	**755,356**	**752,500**	Cash flow	Commission rate swap	**41,761**	**-**

2001

Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	4,966,258	4,855,008	Fair value	Commission rate swap	2,114	73,613
Fixed commission rate loans	644,678	637,500	Fair value	Commission rate swap	36	7,215
Fixed commission rate deposits	1,138,139	1,127,500	Fair value	Commission rate swap	10,639	-
Floating commission rate investments	352,500	352,500	Cash flow	Commission rate swap	-	-

Approximately 59.6% (2001: 54.6%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 10.2% (2001: 13.7%) of the total of the positive fair value contracts are with any individual counterparty at the balance sheet date.

(SAUDI RIYALS IN THOUSANDS)

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2002	2001
Current accounts	**244,727**	100,399
Money market deposits	**9,796,002**	8,037,908
Total	**10,040,729**	8,138,307

11. CUSTOMER DEPOSITS

	2002	2001
Demand	**12,428,444**	10,485,769
Saving	**144,418**	142,736
Time	**14,440,244**	14,237,438
Other	**1,153,201**	1,281,876
Total	**28,166,307**	26,147,819

Time deposits include deposits against sales of fixed rate bonds of SAR 4,292 million (2001: SAR 3,381 million) with agreement to repurchase the same at fixed future dates. Other customer deposits includes SAR 884 million (2001: SAR 969 million) of margins held for customer commitments.

The above include foreign currency deposits, principally in US Dollar, as follows:

	2002	2001
Demand	**774,300**	507,274
Saving	**8,814**	7,736
Time	**4,568,757**	4,753,475
Other	**318,042**	293,722
Total	**5,669,913**	5,562,207

12. OTHER LIABILITIES

	2002	2001
Accrued commission expense – banks and other financial institutions	**39,115**	31,460
Accrued commission expense – customer deposits	**115,814**	124,681
Accrued commission expense – derivatives	**114,447**	188,890
Accrued commission expense – other	**3,716**	9,986
Negative fair value of derivatives (Note 9)	**400,804**	238,928
Proposed gross dividend	**449,420**	342,522
Subscriptions received in STC IPO	**277,930**	-
Other	**1,142,120**	880,622
Total	**2,543,366**	1,817,089

13. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 36 million shares of SAR 50 each (2001: 30 million). The ownership of the Banks share capital is as follows:

	2002	2001
Saudi shareholders	**60%**	60%
Arab Bank PLC	**40%**	40%

A bonus share issue of 6 million shares of SAR 50 each was issued for the year ended December 31, 2001, during 2002, after approval in the Extraordinary General Assembly Meeting held on March 17, 2002.

14. STATUTORY RESERVES

In accordance with Saudi Arabian Banking Control Regulations and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 150 million has been transferred from 2002 net income (2001: SAR Nil). The statutory reserve is not currently available for distribution.

15. OTHER RESERVES

2002	Cash flow hedges	Available for sale Investments	Total
Balance at beginning of the year	-	**43,665**	**43,665**
Net change in fair value	**41,761**	**5,824**	**47,585**
Transfer to statement of income	-	**1,304**	**1,304**
Net movement during the year	**41,761**	**7,128**	**48,889**
Balance at end of the year	**41,761**	**50,793**	**92,554**
2001			
Balance at beginning of the year	-	-	-
Net change in fair value	-	43,976	43,976
Transfer to statement of income	-	(311)	(311)
Net movement during the year	-	43,665	43,665
Balance at end of the year	-	**43,665**	**43,665**

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2002 there were 17 (2001: 13) legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

b) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related commitment because the Bank does not generally expect the third party to draw funds under the agreement.

(SAUDI RIYALS IN THOUSANDS)

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

b) Credit related commitments and contingencies

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

i) The maturity structure for the Bank's commitments and contingencies are as follows:

2002	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	**764,512**	**245,535**	**112,611**	**-**	**1,122,658**
Letters of guarantee	**1,419,998**	**1,263,239**	**671,643**	**51,764**	**3,406,644**
Acceptances	**298,096**	**90,748**	**10,946**	**-**	**399,790**
Firm commitments to extend credit	**1,367,313**	**1,185,864**	**277,867**	**-**	**2,831,044**
Other	**-**	**112,133**	**-**	**586,283**	**698,416**
Total	**3,849,919**	**2,897,519**	**1,073,067**	**638,047**	**8,458,552**

2001	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	996,051	264,595	68,150	67,291	1,396,087
Letters of guarantee	1,476,663	1,104,509	541,408	15,198	3,137,778
Acceptances	297,606	152,868	4,487	-	454,961
Firm commitments to extend credit	213,318	1,402,557	24,917	-	1,640,792
Other	-	-	112,133	1,163,084	1,275,217
Total	2,983,638	2,924,529	751,095	1,245,573	7,904,835

The unused portion of non-firm commitments which can be revoked at any time, outstanding as at December 31, 2002 is SAR 2,134 million (2001: SAR 2,973 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2002	2001
Government and quasi Government	**298,777**	282,688
Corporate	**6,007,929**	4,573,258
Banks and other financial institutions	**768,721**	1,249,047
Other	**1,383,125**	1,799,842
Total	**8,458,552**	7,904,835

c) Operating lease commitments: The future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows:

	2002	2001
Less than 1 year	**27,213**	25,118
1 to 5 years	**48,228**	42,209
Over 5 years	**4,204**	1,263
Total	**79,645**	68,590

17. NET SPECIAL COMMISSION INCOME

	2002	2001
Special commission income		
Available for sale investments	**96,137**	121,473
Originated debt securities	**637,619**	639,837
Held to maturity investments	**148,086**	208,012
Investments	**881,842**	969,322
Bank placements	**69,435**	148,406
Loans and advances	**1,002,474**	1,090,406
Other	**272**	238
Total	**1,954,023**	2,208,372
Special commission expense		
Bank deposits	**186,935**	288,260
Customer deposits	**343,887**	646,006
Other	**291**	388
Total	**531,113**	934,654

18. FEES FROM BANKING SERVICES, NET

	2002	2001
Fee income	**276,754**	259,205
Fee expenses	**105,240**	82,078
Net fee income	**171,514**	177,127

19. TRADING (LOSS) INCOME

	2002	2001
Derivatives	**(442)**	4,703
Total	**(442)**	4,703

20. DIVIDEND INCOME

	2002	2001
Available for sale investments	**18**	1,067
Total	**18**	1,067

(SAUDI RIYALS IN THOUSANDS)

21. GAINS ON INVESTMENTS, NET

	2002	2001
Available for sale investments	**14,312**	983
Originated debt securities	**21,708**	3,581
Total	**36,020**	4,564

22. OTHER OPERATING INCOME

	2002	2001
Gains on disposal of fixed assets	**944**	480
Gains on disposal of other real estate	**898**	-
Recoveries of loans and advances previously written off	**5,962**	5,459
Other	**3,172**	1,832
Total	**10,976**	7,771

23. OTHER OPERATING EXPENSE

	2002	2001
Loss on disposal of other real estate	**235**	139
Loss on disposal of fixed assets	**56**	33
Unrealized revaluation loss on other real estate	**100,568**	-
Total	**100,859**	172

Based on related market developments, the estimated value of a certain collateral obtained in prior years by the Bank in settlement of an impaired credit facility was written down by SAR 100 million and was accounted for in the fourth quarter of 2002.

24. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year. A 1 for 5 bonus share issue was approved in the Extraordinary General Assembly Meeting held on March 17, 2002. The calculation of earnings per share for 2001 has been adjusted retroactively to give effect to the issuance of bonus shares in 2002.

25. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

a) Proposed gross dividend

The proposed gross dividend for the year 2002 is SAR 449.4 million (2001: SAR 342.5 million) included in other liabilities.

b) Zakat

The Zakat attributable to Saudi shareholders for the year amounted to SAR 10.4 million (2001: SAR 7.5 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi shareholders of SAR 12 per share (2001: SAR 11 per share equivalent to SAR 9.2 per share as restated for bonus shares issued during 2002).

c) Income tax

Under the provisions of the Ministry of Finance and National Economy Decree No. 3/918 dated 20/5/1412H (November 26, 1991) as subsequently amended by Decree No. 3/1399 dated 27/5/1413H (November 23, 1992), income tax payable in respect of the liability on the non Saudi shareholder's current year's share of income is SAR 83.4 million (2001: SAR 60 million) restricted to 75% of their share of cash dividend for the year. Any income tax liability in excess of 75% of the share of dividend will be carried forward and settled in the future in accordance with the applicable limit. The share of dividend of Arab Bank PLC will be paid after deducting the related taxes due as described above.

26. CASH AND CASH EQUIVALENTS

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

	2002	2001
Cash and balances with SAMA excluding statutory deposit (note 3)	**2,063,512**	847,061
Due from banks maturing within ninety days	**4,136,952**	2,814,998
Total	**6,200,464**	3,662,059

27. BUSINESS SEGMENTS

For management purposes, the Bank is organized into three major business segments:

Retail Banking

Deposit, credit and investment product for individuals.

Corporate Banking

Loans, deposits and other credit products for corporate and institutional customers, small to medium sized business 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 in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

The Bank's primary business is conducted in Saudi Arabia with one international branch. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Bank's overall financial statements.

(SAUDI RIYALS IN THOUSANDS)

27. BUSINESS SEGMENTS (CONTINUED)

a) The Bank's total assets and liabilities as at December 31, 2002 and 2001, its total operating income and expenses, and its net income for years then ended, by business segment, are as follows:

	2002			
	Retail banking	Corporate banking	Treasury banking	Total
Total assets	**5,335,495**	**12,757,739**	**26,205,470**	**44,298,704**
Total liabilities	**15,953,910**	**3,341,528**	**21,454,964**	**40,750,402**
Total operating income	**1,166,446**	**338,635**	**213,325**	**1,718,406**
Total operating expenses	**780,696**	**313,178**	**40,504**	**1,134,378**
Net income	**385,750**	**25,457**	**172,821**	**584,028**

	2001			
	Retail banking	Corporate banking	Treasury banking	Total
Total assets	4,704,846	11,746,625	23,017,853	39,469,324
Total liabilities	14,419,795	2,979,943	18,703,477	36,103,215
Total operating income	1,073,989	323,099	133,950	1,531,038
Total operating expenses	712,719	298,862	33,303	1,044,884
Net income	361,270	24,237	100,647	486,154

b) The Bank's credit exposure for balance sheet assets and credit equivalent exposure under commitments, contingencies and derivatives, calculated on the basis of SAMA's related methodology for regulatory reporting, are as follows:

	2002			
	Retail banking	Corporate banking	Treasury banking	Total
Balance sheet assets	**5,033,899**	**12,353,454**	**25,215,012**	**42,602,365**
Commitments and contingencies	**648,557**	**3,345,904**	**97,913**	**4,092,374**
Derivatives	-	**20,759**	**680,120**	**700,879**

28. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

The debt instruments included in investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5f. For details of the composition of the loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments and contingencies in note 16.

The Bank uses an internal risk classification system and assigns quality ratings based upon the degree of risk and the likelihood of orderly repayment. The evaluation of credit is conducted periodically by an independent credit review unit, and is based upon the fundamentals of each credit, which includes an objective evaluation of a borrower, character, activity, cash flow, capital structure, security, quality of management, and delinquency. A satisfactory classification is given to all credits that exhibit neither potential nor any well-defined weaknesses and are subject to general provision allocation. Watch-list classification includes credits that have experienced recent potential weaknesses and where the bank's risk is perceived to be currently protected but potentially weak. Provisions for watch-list credits are made based on a judgment of the likelihood of deterioration of the repayment prospect. Classified credits are credits that exhibit weaknesses and are classified into three risk categories; substandard, doubtful and loss. Provisions on classified credits are made on an aging basis based on days past due within three time buckets; 90,180 and 360 days. Minimum specific provisions are applicable to each bucket. Special commission income on all loan facilities, regardless of risk class, is suspended at 90 days past due, and loans are classified as non-performing without regard to collateral, obligors' capacity or likelihood of ultimate collection.

(SAUDI RIYALS IN THOUSANDS)

29. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

a] The distributions by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure are as follows:

2002

	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	**3,131,909**	-	**1,745**	**783**	-	-	-	**3,134,437**
Due from banks and other financial institutions	**350,000**	**958,930**	**2,079,082**	**932,049**	-	**20,007**	**46,884**	**4,386,952**
Investments, net	**15,435,943**	**245,333**	**804,717**	**2,579,274**	-	-	-	**19,065,267**
Loans and advances, net	**13,181,071**	**1,617,972**	**1,179,019**	-	-	-	**37,647**	**16,015,709**
Total	**32,098,923**	**2,822,235**	**4,064,563**	**3,512,106**	-	**20,007**	**84,531**	**42,602,365**
Liabilities								
Due to banks and other financial institutions	**3,340,250**	**4,736,494**	**1,775,710**	**123,755**	-	**19,250**	**45,270**	**10,040,729**
Customer deposits	**27,877,782**	**26,838**	**59,089**	**755**	-	**554**	**201,289**	**28,166,307**
Total	**31,218,032**	**4,763,332**	**1,834,799**	**124,510**	-	**19,804**	**246,559**	**38,207,036**
Commitments and Contingencies	**6,319,004**	**587,648**	**822,685**	**223,842**	**16,782**	**263,172**	**225,419**	**8,458,552**
Credit exposure *								
Commitments and contingencies	**3,123,790**	**249,037**	**394,933**	**106,994**	**3,769**	**109,226**	**104,625**	**4,092,374**
Derivatives	**262,470**	**51,979**	**352,304**	**31,444**	-	**2,554**	**128**	**700,879**

2001

	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	1,897,143	-	1,581	398	-	-	-	1,899,122
Due from banks and other financial institutions	607,064	1,222,829	742,554	32,246	-	170,241	40,064	2,814,998
Investments, net	15,769,765	285,789	816,873	2,359,783	-	-	18,941	19,251,151
Loans and advances, net	11,616,780	1,212,641	1,005,745	26,998	-	496	4,254	13,866,914
Total	29,890,752	2,721,259	2,566,753	2,419,425	-	170,737	63,259	37,832,185
Liabilities								
Due to banks and other financial institutions	4,136,722	3,272,351	704,871	2,492	-	20,383	1,488	8,138,307
Customer deposits	25,949,109	52,314	26,629	991	-	2,246	116,530	26,147,819
Total	30,085,831	3,324,665	731,500	3,483	-	22,629	118,018	34,286,126
Commitments and Contingencies	4,448,825	552,512	1,873,134	239,386	14,805	473,842	302,331	7,904,835

* The credit exposures are calculated on the basis set out in note 27b.

(SAUDI RIYALS IN THOUSANDS)

29. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (CONTINUED)

Balances shown in due from and due to banks and other financial institutions under the Kingdom of Saudi Arabia include money market placements SAR Nil (2001: SAR 625 million) and money market deposits SAR 820 million (2001: SAR 1,047 million), respectively, on account of the foreign branches of local banks.

b) The distributions by geographical concentration of non-performing loans and advances and provision for possible credit losses are as follows:

	Non-performing loans, net		Provision for possible credit losses	
	2002	2001	**2002**	2001
Kingdom of Saudi Arabia	**1,172,610**	1,213,611	**1,157,891**	954,367
Europe	**76**	-	**76**	-
Total	**1,172,686**	1,213,611	**1,157,967**	954,367

30. CURRENCY RISK

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank had the following significant net exposures denominated in foreign currencies:

	2002 Long (short)	2001 Long (short)
US Dollar	**316,540**	(23,766)
Euro	**594**	47
Pound Sterling	**(1,747)**	(815)
Other	**395**	9,770

31. COMMISSION RATE RISK

Commission sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

2002

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total	Effective commission rate %
Assets							
Cash and balances with SAMA	1,626,932	-	-	-	1,507,505	3,134,437	1.50
Due from banks and other financial institutions	3,907,909	250,000	-	-	229,043	4,386,952	1.43
Investments, net	3,317,182	1,849,368	9,326,622	4,070,625	501,470	19,065,267	5.11
Loans and advances, net	10,139,178	2,548,807	3,192,431	40,476	94,817	16,015,709	5.70
Other real estate	-	-	-	-	142,895	142,895	
Fixed assets, net	-	-	-	-	298,975	298,975	
Other assets	-	-	-	-	1,254,469	1,254,469	
Total assets	**18,991,201**	**4,648,175**	**12,519,053**	**4,111,101**	**4,029,174**	**44,298,704**	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	7,986,079	1,809,924	-	-	244,726	10,040,729	2.07
Customer deposits	9,431,507	4,830,804	100,565	-	13,803,431	28,166,307	2.32
Other liabilities	-	-	-	-	2,543,366	2,543,366	
Shareholders' equity	-	-	-	-	3,548,302	3,548,302	
Total liabilities and shareholders' equity	**17,417,586**	**6,640,728**	**100,565**	-	**20,139,825**	**44,298,704**	
On balance sheet gap	**1,573,615**	**(1,992,553)**	**12,418,488**	**4,111,101**	**(16,110,651)**		
Off balance sheet gap	**(520,885)**	**985,280**	**(165,899)**	**(298,496)**	-		
Total commission rate sensitivity gap	**1,052,730**	**(1,007,273)**	**12,252,589**	**3,812,605**	**(16,110,651)**		
Cumulative commission rate sensitivity gap	**1,052,730**	**45,457**	**12,298,046**	**16,110,651**	-		

(SAUDI RIYALS IN THOUSANDS)

31. COMMISSION RATE RISK (CONTINUED)

2001

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total	Effective commission rate %
Assets							
Cash and balances with SAMA	519,958	-	-	-	1,379,164	1,899,122	2.25
Due from banks and other financial institutions	2,595,961	26,818	-	-	192,219	2,814,998	1.90
Investments, net	5,219,123	4,994,757	6,149,207	2,415,000	473,064	19,251,151	5.59
Loans and advances, net	7,427,937	3,385,188	2,689,295	18,827	345,667	13,866,914	6.71
Other real estate	-	-	-	-	254,605	254,605	
Fixed assets, net	-	-	-	-	279,763	279,763	
Other assets	-	-	-	-	1,102,771	1,102,771	
Total assets	15,762,979	8,406,763	8,838,502	2,433,827	4,027,253	39,469,324	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	6,380,884	1,657,010	-	-	100,413	8,138,307	2.61
Customer deposits	10,012,082	4,253,018	291,878	-	11,590,841	26,147,819	2.79
Other liabilities	-	-	-	-	1,817,089	1,817,089	
Shareholders' equity	-	-	-	-	3,366,109	3,366,109	
Total liabilities and shareholders' equity	16,392,966	5,910,028	291,878	-	16,874,452	39,469,324	
On balance sheet gap	(629,987)	2,496,735	8,546,624	2,433,827	(12,847,199)		
Off balance sheet gap	2,685,686	(1,752,500)	(696,947)	(236,239)	-		
Total commission rate sensitivity gap	2,055,699	744,235	7,849,677	2,197,588	(12,847,199)		
Cumulative commission rate sensitivity gap	2,055,699	2,799,934	10,649,611	12,847,199	-		

The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, which are used to manage the commission rate risk. The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

(SAUDI RIYALS IN THOUSANDS)

32. LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

In accordance with Banking Control Laws and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 2% of saving and time deposits. The Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days.

The Bank may also raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds. The maturity profile of the assets and liabilities is as follows:

2002	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	**1,626,932**	-	-	-	**1,507,505**	**3,134,437**
Due from banks and other financial institutions	**3,907,909**	**250,000**	-	-	**229,043**	**4,386,952**
Investments, net	**645,773**	**1,272,568**	**12,001,476**	**4,564,859**	**580,591**	**19,065,267**
Loans and advances, net	**4,577,018**	**2,355,128**	**6,575,125**	**1,025,885**	**1,482,553**	**16,015,709**
Other real estate	-	-	-	-	**142,895**	**142,895**
Fixed assets, net	-	-	-	-	**298,975**	**298,975**
Other assets	-	-	-	-	**1,254,469**	**1,254,469**
Total assets	**10,757,632**	**3,877,696**	**18,576,601**	**5,590,744**	**5,496,031**	**44,298,704**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**8,083,079**	**1,809,924**	-	-	**147,726**	**10,040,729**
Customer deposits	**9,343,317**	**4,813,649**	**100,565**	**60,371**	**13,848,405**	**28,166,307**
Other liabilities	-	-	-	-	**2,543,366**	**2,543,366**
Shareholders' equity	-	-	-	-	**3,548,302**	**3,548,302**
Total liabilities and shareholders' equity	**17,426,396**	**6,623,573**	**100,565**	**60,371**	**20,087,799**	**44,298,704**

2001	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	519,958	-	-	-	1,379,164	1,899,122
Due from banks and other financial institutions	2,595,961	26,818	-	-	192,219	2,814,998
Investments, net	2,144,524	4,654,603	9,002,442	2,976,518	473,064	19,251,151
Loans and advances, net	3,975,665	1,959,904	5,574,314	725,273	1,631,758	13,866,914
Other real estate	-	-	-	-	254,605	254,605
Fixed assets, net	-	-	-	-	279,763	279,763
Other assets	-	-	-	-	1,102,771	1,102,771
Total assets	9,236,108	6,641,325	14,576,756	3,701,791	5,313,344	39,469,324
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,380,884	1,657,010	-	-	100,413	8,138,307
Customer deposits	10,012,082	4,253,018	291,878	-	11,590,841	26,147,819
Other liabilities	-	-	-	-	1,817,089	1,817,089
Shareholders' equity	-	-	-	-	3,366,109	3,366,109
Total liabilities and shareholders' equity	16,392,966	5,910,028	291,878	-	16,874,452	39,469,324

(SAUDI RIYALS IN THOUSANDS)

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for originated debt securities, held to maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair value of the originated debt securities and investments held to maturity is based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of these investments is disclosed in note 5. It is not practical to determine the fair value of loans and advances and customer deposits with sufficient reliability.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Laws and the regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

	2002	2001
Arab Bank PLC		
Due from banks and other financial institutions	**640,534**	1,034,881
Due to banks and other financial institutions	**2,716,791**	697,524
Derivatives (positive fair value)	**702**	-
Commitments and contingencies	**673,353**	666,221
Directors, other major shareholders and their affiliates:		
Loans and advances	**349,580**	408,262
Customer deposits	**3,486,633**	3,621,529
Commitments and contingencies	**205,859**	192,322
Bank's mutual funds:		
Investments	**71,496**	82,099
Loans and advances	**190**	6,270
Customer deposits	**637,416**	378,399

Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2002	2001
Special commission income	**22,599**	57,083
Special commission expense	**167,075**	209,345
Fees from banking services	**19,628**	15,932
Directors' remuneration	**2,117**	1,951

35. CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using the methodology and ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

	Capital 2002	Capital 2001	Ratio % 2002	Ratio % 2001
Tier 1	**3,564,998**	3,349,086	**19%**	21%
Tier 1 + Tier 2	**3,682,620**	3,366,109	**19%**	21%

	Risk weighted assets 2002			2001		
	Carrying Value Notional	Credit equivalent	Risk weighted assets	Carrying Value Notional	Credit equivalent	Risk weighted assets
Balance sheets assets						
0 %	**21,400,305**		-	21,808,776		-
20 %	**8,013,862**		**1,602,772**	5,473,447		1,094,689
100 %	**14,884,537**		**14,884,537**	12,187,101		12,187,101
Total	**44,298,704**		**16,487,309**	39,469,324		13,281,790
Commitments and derivatives						
0 %	**3,163,217**	**1,571,364**	-	2,003,998	558,373	-
20 %	**23,180,694**	**843,264**	**168,653**	21,283,584	727,527	145,505
50 %	**6,375,346**	**130,162**	**65,081**	10,324,415	98,615	49,308
100 %	**4,655,438**	**2,248,463**	**2,248,463**	4,957,518	2,435,594	2,435,594
Total	**37,374,695**	**4,793,253**	**2,482,197**	38,569,515	3,820,109	2,630,407
Total risk weighted assets			**18,969,506**			15,912,197

36. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment services to its customers which include the management of certain investment funds in consultation with professional investment advisors. The financial statements of these funds are not consolidated with the financial statements of the Bank. However, the Bank's share of these funds is included in investments available for sale and fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the financial statements.

37. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year's presentation.

38. BOARD OF DIRECTORS APPROVAL

The financial statements were approved by the Board of Directors on 10/11/1423H (January 13, 2003).