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 31 December 2003 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 at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions 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
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

Nasser M. Al-Sagga
Certified Public Accountant
Registration No. 322

Riyadh : 21 Dhul Qadah 1424H
(13 January 2004)

BALANCE SHEET
As at December 31, 2003 and 2002

	Notes	2003 SAR' 000	2002 SAR' 000
ASSETS			
Cash and balances with SAMA	3	**1,677,826**	3,134,437
Due from banks and other financial institutions	4	**4,194,690**	4,386,952
Investments, net	5	**21,481,119**	19,065,267
Loans and advances, net	6	**20,172,233**	16,015,709
Other real estate		**201,297**	142,895
Fixed assets, net	7	**323,084**	298,975
Other assets	8	**1,150,641**	1,254,469
Total assets		**49,200,890**	44,298,704
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	**9,108,569**	10,040,729
Customer deposits	11	**33,722,994**	28,166,307
Other liabilities	12	**2,391,986**	2,543,366
Total liabilities		**45,223,549**	40,750,402
Shareholders' equity			
Share capital	13	**1,800,000**	1,800,000
Statutory reserve	14	**1,800,000**	1,650,000
General reserve	14	**200,000**	-
Other reserves	15	**170,728**	92,554
Retained earnings		**6,613**	5,748
Total shareholders' equity		**3,977,341**	3,548,302
Total liabilities and shareholders' equity		**49,200,890**	44,298,704

The accompanying notes 1 to 38 form an integral part of these financial statements

STATEMENT OF INCOME
For the years ended December 31, 2003 and 2002

	Notes	2003 SAR' 000	2002 SAR' 000
Special commission income	17	**1,989,433**	1,940,741
Special commission expense	17	**469,381**	532,820
Net special commission income		**1,520,052**	1,407,921
Fees from banking services, net	18	**264,209**	171,514
Exchange income		**92,375**	77,410
Trading income, net	19	**14,156**	(442)
Dividend income	20	**-**	18
Gains on investments, net	21	**2,078**	36,020
Other operating income	22	**7,560**	10,976
Total operating income		**1,900,430**	1,703,417
Salaries and employee related expenses		**500,822**	478,042
Rent and premises related expenses		**50,156**	44,841
Depreciation and amortization	7	**63,609**	63,906
Other general and administrative expenses		**202,083**	210,110
Provision for possible credit losses	6	**316,790**	221,631
Other operating expenses	23	**454**	100,859
Total operating expenses		**1,133,914**	1,119,389
Net income		**766,516**	584,028
Earnings per share (in SAR)	24	**21.29**	16.22

The accompanying notes 1 to 38 form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2003 and 2002

2003	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	General reserve SAR' 000	Other reserves SAR'000	Retained earnings SAR' 000	Total SAR' 000
Balance at beginning of the year		**1,800,000**	**1,650,000**	**-**	**92,554**	**5,748**	**3,548,302**
Net income		**-**	**-**	**-**	**-**	**766,516**	**766,516**
Transfer to statutory reserve	14	**-**	**150,000**	**-**	**-**	**(150,000)**	**-**
Transfer to general reserve	14	**-**	**-**	**200,000**	**-**	**(200,000)**	**-**
Proposed gross dividend	25	**-**	**-**	**-**	**-**	**(415,651)**	**(415,651)**
Net changes in fair value and cash flow hedges	15	**-**	**-**	**-**	**78,174**	**-**	**78,174**
Balance at end of the year		**1,800,000**	**1,800,000**	**200,000**	**170,728**	**6,613**	**3,977,341**
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

The accompanying notes 1 to 38 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the years ended December 31, 2003 and 2002

	Notes	2003 SAR' 000	2002 SAR' 000
OPERATING ACTIVITIES			
Net income		**766,516**	584,028
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortization of premiums on investments, net		**(39,652)**	(4,794)
Gains on investments, net		**(2,078)**	(36,020)
Depreciation and amortization		**63,609**	63,906
Gains on disposal of fixed assets and other real estate		**(470)**	(1,551)
Provision for possible credit losses		**316,790**	221,631
		1,104,715	827,200
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA	3	**(164,535)**	**(18,864)**
Due from banks and other financial institutions maturing after ninety days		**250,000**	**(250,000)**
Trading securities		**(97,952)**	**-**
Loans and advances		**(4,471,275)**	**(2,377,591)**
Other real estate		**(58,402)**	**111,710**
Other assets		**161,142**	**128,912**
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(932,160)**	1,902,422
Customer deposits		**5,563,444**	2,022,286
Other liabilities		**(152,966)**	334,611
Net cash from operating activities		**1,202,011**	2,680,686
INVESTING ACTIVITIES			
Proceeds from sales of and matured investments		**4,555,020**	8,533,783
Purchase of investments		**(6,788,403)**	(8,254,894)
Purchase of fixed assets		**(88,288)**	(83,178)
Proceeds from sale of fixed assets		**1,040**	1,611
Net cash (used in) from investing activities		**(2,320,631)**	197,322
FINANCING ACTIVITIES			
Dividends paid		**(444,788)**	(339,603)
Net cash used in financing activities		**(444,788)**	(339,603)
(Decrease) increase in cash and cash equivalents		**(1,563,408)**	2,538,405
Cash and cash equivalents at beginning of the year		**6,200,464**	3,662,059
Cash and cash equivalents at end of the year	26	**4,637,056**	6,200,464
Supplemental non cash information			
Net changes in fair value and cash flow hedges		**78,174**	47,585

The accompanying notes 1 to 38 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 Rajab 18, 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 Rabi Awal 1, 1400H (January 19, 1980) through its 114 branches (2002: 116 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom employing 2,163 employees (2002: 2,005). The address of the Bank's head office is as follows:

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

The objective of the Bank is to provide a full range of banking services.

2. Summary of Significant Accounting Policies

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

a) Basis of presentation

The financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards, including International Accounting Standards and interpretations issues by the International Accounting Standards Board. 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 and trading and available for sale investments. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in a fair value hedging relationship) are carried at fair value to the extent of the 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 that 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 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 to a forecasted transaction and firm commitment that will affect the reported net gain or loss.

In order to qualify for hedge accounting, 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 and 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 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 and when the Bank intends to settle on a net basis, or to realize the asset and to settle the liability simultaneously.

f) Revenue recognition

Special commission income and expense are recognized in the statement of income on the accrual basis and include premiums amortized and discounts accreted during the year. 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, 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 sale and repurchase prices is treated as special commission expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the balance sheet, as the Bank does not obtain control over the assets. Amounts paid under these 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 purchase and resale prices is treated as special commission income and is accrued over the life of the reverse repo agreement.

h) Investments

All investment securities are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investments. 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.

Following the initial recognition of the various classes of investment securities, the subsequent period end reporting values are determined as follows:

i) Held for trading

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 an available for sale investments where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in other reserves under shareholders' equity until the investment is derecognized 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.

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

iii) Originated debt

Securities that 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 investments. Originated debt investments where the fair values have 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 and are intended to be held to maturity are subsequently measured at amortized cost, less provision for impairment in their 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 deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission.

Provisions for possible credit losses, including those arising from sovereign risk exposures, are based upon the management's assessment of the adequacy of the provisions on a periodic basis. Such 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 are deducted from loans and advances.

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 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:

i. 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

ii. 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 the different types of loans and advances, whereas additional provisions are evaluated on a group basis, and additional provisions are created for possible 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 and the experience and 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 and 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 straight line 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 are amortized and discounts are accreted on a systematic basis to maturity and taken to special commission income or expense.

Deposits and money market placements that 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 hedge 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) Accounting for leases

Leases entered into by the Bank (as a lessee) are all operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

o) Cash and cash equivalents

For the purpose of the statement of cash flows, 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.

p) **End of service benefits**
Indemnities payable to employees of the Bank at the end of their services are provided for as required by the Saudi Arabian Labor Law using actuarial valuation. Provision for indemnities is included in other liabilities.

3. Cash and balances with SAMA

	2003 SAR' 000	2002 SAR' 000
Cash in hand	**440,287**	427,078
Statutory deposit	**1,235,460**	1,070,925
Reverse repo	**-**	1,626,932
Other balances	**2,079**	9,502
Total	**1,677,826**	3,134,437

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, savings, time and other deposits, calculated at the end of each month.

4. Due from banks and other financial institutions

	2003 SAR' 000	2002 SAR' 000
Current accounts	**275,065**	229,044
Money market placements	**3,919,625**	4,157,908
Total	**4,194,690**	4,386,952

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2003 SAR' 000	2002 SAR' 000	2003 SAR' 000	2002 SAR' 000	2003 SAR' 000	2002 SAR' 000
i) Held for trading						
Other	**-**	-	**97,952**	-	**97,952**	-
Held for trading	**-**	**-**	**97,952**	**-**	**97,952**	**-**
ii) Available for sale						
Fixed rate securities	**403,168**	747,619	**1,520,407**	1,681,857	**1,923,575**	2,429,476
Floating rate notes	**-**	-	**273,155**	356,654	**273,155**	356,654
Equities	**28**	728	**40**	282	**68**	1,010
Other	**84,715**	71,496	**625,409**	334,165	**710,124**	405,661
Available for sale, net	**487,911**	819,843	**2,419,011**	2,372,958	**2,906,922**	3,192,801
iii) Originated debt						
Fixed rate securities	**12,177,329**	9,619,410	**93,525**	639,098	**12,270,854**	10,258,508
Floating rate notes	**2,100,000**	2,400,000	**1,263,793**	616,876	**3,363,793**	3,016,876
Originated debt, net	**14,277,329**	12,019,410	**1,357,318**	1,255,974	**15,634,647**	13,275,384
iv) Held to maturity						
Fixed rate securities	**2,841,598**	2,597,082	**-**	-	**2,841,598**	2,597,082
Held to maturity, net	**2,841,598**	2,597,082	**-**	-	**2,841,598**	2,597,082
Investments, net	**17,606,838**	15,436,335	**3,874,281**	3,628,932	**21,481,119**	19,065,267

b) The analysis of the composition of investments is as follows.

	2003			2002		
	Quoted SAR' 000	**Unquoted SAR' 000**	**Total SAR' 000**	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
Fixed rate securities	**1,553,463**	**15,482,564**	**17,036,027**	2,320,955	12,964,111	15,285,066
Floating rate notes	**152,731**	**3,484,217**	**3,636,948**	222,792	3,150,738	3,373,530
Equities	**-**	**68**	**68**	-	1,010	1,010
Other	**-**	**808,076**	**808,076**	-	405,661	405,661
Investments, net	**1,706,194**	**19,774,925**	**21,481,119**	2,543,747	16,521,520	19,065,267

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

c) The analysis of unrealized gains and losses and the fair values of originated debt, net of hedging, and held to maturity investments, is as follows:

	2003 SAR' 000				2002 SAR' 000			
	Carrying value	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
i) Originated debt								
Fixed rate securities	**12,270,854**	**464,715**	**7,097**	**12,728,472**	10,258,508	453,338	9,367	10,702,479
Floating rate notes	**3,363,793**	**5,648**	**943**	**3,368,498**	3,016,876	4,529	-	3,021,405
Total	**15,634,647**	**470,363**	**8,040**	**16,096,970**	13,275,384	457,867	9,367	13,723,884
ii) Held to maturity								
Fixed rate securities	**2,841,598**	**165,942**	**-**	**3,007,540**	2,597,082	154,046	-	2,751,128
Total	**2,841,598**	**165,942**	**-**	**3,007,540**	2,597,082	154,046	-	2,751,128

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

	2003 SAR' 000	2002 SAR' 000
Government and quasi Government	**18,042,963**	16,407,600
Corporate	**200,113**	213,292
Banks and other financial institutions	**3,153,259**	2,371,868
Other	**84,784**	72,507
Total	**21,481,119**	19,065,267

Investments include SAR 5,221 million (2002: SAR 3,921 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 5,539 million (2002: SAR 4,307 million).

Retained earnings as at December 31, 2003 includes SAR 21.2 million (2002: SAR 21.2 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.

6. Loans and advances, net

a) Originated loans and advances

These comprise the following:	2003 SAR' 000	2002 SAR' 000
Performing:		
Overdrafts	**1,833,895**	1,282,425
Credit cards	**87,214**	77,435
Commercial loans	**11,613,585**	8,781,070
Consumer loans	**5,514,733**	4,002,326
Other	**5,123**	15,859
Performing loans and advances, gross	**19,054,550**	14,159,115
Non performing loans and advances, net	**1,025,716**	1,172,686
	20,080,266	15,331,801
Provision for possible credit losses	**(1,387,803)**	(1,157,967)
Originated loans and advances, net	**18,692,463**	14,173,834

b) Held to maturity loans and advances

Performing commercial loans	**1,479,770**	1,841,875
Loans and advances, net	**20,172,233**	16,015,709

Non performing loans and advances are disclosed net of accumulated commission in suspense of SAR 593.3 million (2002: SAR 593.6 million).

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

	2003 SAR' 000	2002 SAR' 000
Balance at beginning of the year	**1,157,967**	954,367
Provided during the year	**316,790**	221,631
Bad debts written off	**(86,954)**	(18,031)
Balance at end of the year	**1,387,803**	1,157,967

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 and provision for possible credit losses are as follows:

	SAR'000			
2003	**Performing, gross**	**Non performing, net**	**Credit loss provision**	**Loan and advances, net**
1. Government and quasi Government	**615,665**	**-**	**-**	**615,665**
2. Banks and other financial institutions	**3,594,500**	**13,583**	**(13,583)**	**3,594,500**
3. Agriculture and fishing	**177,389**	**9,291**	**(8,912)**	**177,768**
4. Manufacturing	**3,957,982**	**139,766**	**(137,556)**	**3,960,192**
5. Mining and quarrying	**104,401**	**29**	**(33)**	**104,397**
6. Electricity, water, gas and health services	**597,744**	**-**	**-**	**597,744**
7. Building and construction	**1,219,961**	**356,527**	**(198,742)**	**1,377,746**
8. Commerce	**1,867,599**	**257,613**	**(362,064)**	**1,763,148**
9. Transportation and communication	**240,393**	**7,702**	**(12,612)**	**235,483**
10. Services	**424,948**	**34,463**	**(34,651)**	**424,760**
11. Consumer loans and credit cards	**5,601,947**	**111,581**	**(120,274)**	**5,593,254**
12. Other	**2,131,791**	**95,161**	**(108,470)**	**2,118,482**
	20,534,320	**1,025,716**	**(996,897)**	**20,563,139**
13. Portfolio provision	**-**	**-**	**(390,906)**	**(390,906)**
Total	**20,534,320**	**1,025,716**	**(1,387,803)**	**20,172,233**

2002				
1. Government and quasi Government	892,841	-	-	892,841
2. Banks and other financial institutions	2,254,973	13,494	(10,454)	2,258,013
3. Agriculture and fishing	174,087	24,098	(24,502)	173,683
4. Manufacturing	3,266,519	185,654	(149,143)	3,303,030
5. Mining and quarrying	114,003	-	-	114,003
6. Electricity, water, gas and health services	702,881	-	-	702,881
7. Building and construction	1,063,449	300,300	(203,589)	1,160,160
8. Commerce	1,741,617	276,525	(358,129)	1,660,013
9. Transportation and communication	333,427	1,534	(4,887)	330,074
10. Services	241,585	26,227	(25,803)	242,009
11. Consumer loans and credit cards	4,079,761	98,893	(105,721)	4,072,933
12. Other	1,135,847	245,961	(142,217)	1,239,591
	16,000,990	1,172,686	(1,024,445)	16,149,231
13. Portfolio provision	-	-	(133,522)	(133,522)
Total	16,000,990	1,172,686	(1,157,967)	16,015,709

In respect of portfolio provision refer to note 28.

7. Fixed assets, net

	Land and buildings SAR' 000	Leasehold improvements SAR' 000	Furniture equipment and vehicles SAR' 000	Total SAR' 000
Cost				
Balance at beginning of the year	**279,932**	**135,521**	**381,055**	**796,508**
Additions	**20,710**	**21,296**	**46,282**	**88,288**
Disposals	**(410)**	**-**	**(16,809)**	**(17,219)**
Balance at end of the year	**300,232**	**156,817**	**410,528**	**867,577**
Accumulated depreciation				
Balance at beginning of the year	**123,791**	**89,387**	**284,355**	**497,533**
Charge for the year	**4,595**	**16,075**	**42,939**	**63,609**
Disposals	**-**	**-**	**(16,649)**	**(16,649)**
Balance at end of the year	**128,386**	**105,462**	**310,645**	**544,493**
Net book value				
As at December 31, 2003	**171,846**	**51,355**	**99,883**	**323,084**
As at December 31 2002	156,141	46,134	96,700	298,975

Furniture equipment and vehicles include information technology related assets.

8. Other assets

	2003 SAR' 000	2002 SAR' 000
Accrued commission income – banks and other financial institutions	**763**	1,002
Accrued commission income – investments	**363,411**	340,219
Accrued commission income – loans and advances	**38,760**	42,000
Accrued commission income – derivatives	**63,145**	126,131
Accrued commission income – other	**419**	3,864
Total accrued commission income	**466,498**	513,216
Positive fair value of derivatives (note 9)	**477,268**	416,730
Other	**206,875**	324,523
Total	**1,150,641**	1,254,469

9. Derivatives

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

a) Swaps
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.

b) Forwards and futures
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.

c) Forward rate agreements

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.

d) Options

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 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.

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 and banks 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.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission 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 the 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 also established the 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 held, together with the notional amounts, analyzed by the 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, nor market risk.

(SAR' 000)

Derivative financial instruments 2003	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
Held for trading:								
Commission rate swaps	**37,660**	**37,468**	**2,150,750**	**552,000**	**773,750**	**825,000**	**-**	**2,754,646**
Forward rate agreements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**91,200**
Forward foreign exchange contracts	**285,242**	**223,860**	**15,680,114**	**11,169,726**	**4,456,039**	**54,349**	**-**	**14,941,329**
Currency options	**113,678**	**112,749**	**4,926,480**	**1,732,054**	**3,194,426**	**-**	**-**	**5,918,747**
Other	**21**	**-**	**3,739**	**-**	**-**	**3,739**	**-**	**28,237**
Held as fair value hedges:								
Commission rate swaps	**2,129**	**84,941**	**4,933,365**	**250,000**	**2,665,625**	**1,700,961**	**316,779**	**5,595,338**
Held as cash flow hedges:								
Commission rate swaps	**38,538**		**752,500**	**-**	**200,000**	**552,500**	**-**	**752,500**
Total	**477,268**	**459,018**	**28,446,948**	**13,703,780**	**11,289,840**	**3,136,549**	**316,779**	**30,081,997**
2002								
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
Held as fair value hedges:								
Commission rate swaps	8,670	121,660	5,983,315	933,920	3,830,500	920,399	298,496	6,505,484
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

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

(SAR' 000)

Description of hedged items 2003	Fair Value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	**1,567,168**	**1,496,974**	**Fair value**	**Commission rate swap**	**1,533**	**82,492**
Fixed commission rate loans	**1,428,204**	**1,430,141**	**Fair value**	**Commission rate swap**	**171**	**2,108**
Fixed commission rate deposits	**2,006,334**	**2,006,250**	**Fair value**	**Commission rate swap**	**425**	**341**
Floating commission rate investments	**754,777**	**752,500**	**Cash Flow**	**Commission rate swap**	**38,538**	**-**
2002						
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	-

Approximately 72.0% (2002: 59.6%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 5.6% (2002: 10.2%) of the positive fair value contracts are with any single counterparty at the balance sheet date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

10. Due to banks and other financial institutions

	2003 SAR' 000	2002 SAR' 000
Current accounts	**184,731**	244,727
Money market deposits	**8,923,838**	9,796,002
Total	**9,108,569**	10,040,729

11. Customer deposits

	2003 SAR' 000	2002 SAR' 000
Demand	**13,729,555**	12,428,444
Saving	**136,405**	144,418
Time	**18,663,400**	14,440,244
Other	**1,193,634**	1,153,201
Total	**33,722,994**	28,166,307

Time deposits include deposits against sales of securities of SAR 5,224 million (2002: SAR 4,292 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 821 million (2002: SAR 884 million) of margins held for customer commitments.

The above include foreign currency deposits as follows:

	2003 SAR' 000	2002 SAR' 000
Demand	**694,435**	774,300
Saving	**6,807**	8,814
Time	**4,344,461**	4,568,757
Other	**266,303**	318,042
Total	**5,312,006**	5,669,913

12. Other liabilities

	2003 SAR' 000	2002 SAR' 000
Accrued commission expense – banks and other financial institutions	**31,101**	39,115
Accrued commission expense – customer deposits	**74,448**	115,814
Accrued commission expense – derivatives	**96,487**	114,447
Accrued commission expense – other	**304**	3,716
Total accrued commission expense	**202,340**	273,092
Negative fair value of derivatives (note 9)	**459,018**	400,804
Proposed gross dividend (note 25)	**415,651**	449,420
Subscriptions received in STC IPO	**-**	277,930
Other	**1,314,977**	1,142,120
Total	**2,391,986**	2,543,366

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 36 million shares of SAR 50 each (2002: 36 million). The ownership of the Banks share capital is as follows:

	2003	2002
Saudi shareholders	**60%**	60%
Arab Bank PLC	**40%**	40%

14. Statutory reserves and general reserves

In accordance with Saudi Arabian Banking Control Law 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 2003 net income (2002: SAR 150 million). The statutory reserve is not currently available for distribution.

The Board of Directors has proposed a bonus share issue of 4 million shares of SAR 50 each, which is subject to the approval of the shareholders at the Annual General Assembly meeting. In this connection, the amount of SR 200 million has been transferred to general reserve.

15. Other reserves

2003	Cash flow hedges SAR' 000	Available for sale investments SAR' 000	Total SAR' 000
Balance at beginning of the year	**41,761**	**50,793**	**92,554**
Net change in fair value	**(3,223)**	**81,397**	**78,174**
Net movement during the year	**(3,223)**	**81,397**	**78,174**
Balance at end of the year	**38,538**	**132,190**	**170,728**
2002			
Balance at the 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

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2003 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventuate.

b) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its 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 commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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 these commitments could expire or terminate without being funded.

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

		(SAR' 000)			
2003	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**875,622**	**602,303**	**150,806**	**768**	**1,629,499**
Letters of guarantee	**1,290,359**	**1,489,357**	**797,264**	**17,355**	**3,594,335**
Acceptances	**400,887**	**433,727**	**8,994**	**-**	**843,608**
Irrevocable commitments to extend credit	**4,235**	**86,994**	**1,125,589**	**75,095**	**1,291,913**
Other	**-**	**-**	**-**	**552,703**	**552,703**
Total	**2,571,103**	**2,612,381**	**2,082,653**	**645,921**	**7,912,058**
2002					
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
Irrevocable commitments to extend credit	42,938	194,727	1,306,007	-	1,543,672
Other	-	112,133	-	586,283	698,416
Total	2,525,544	1,906,382	2,101,207	638,047	7,171,180

The outstanding unused portion of commitments as at December 31, 2003 which can be revoked unilaterally at any time by the Bank, amounts to SAR 4,569 million (2002: SAR 3,393 million).

ii) The analysis of commitments and contingencies by counter-party is as follows.

	2003 SAR' 000	**2002 SAR' 000**
Government and quasi Government	**1,133,714**	1,209,437
Corporate	**4,505,241**	3,809,898
Banks and other financial institutions	**969,711**	768,721
Other	**1,303,392**	1,383,124
Total	**7,912,058**	7,171,180

c) Operating lease commitments:

The future minimum lease payments under non cancellable operating leases where the Bank is the lessee are as follows:

	2003 SAR' 000	**2002 SAR' 000**
Less than 1 year	**32,953**	29,809
1 to 5 years	**67,791**	61,208
Over 5 years	**28,973**	23,129
Total	**129,717**	114,146

17. Net special commission income

Special commission income	2003 SAR' 000	2002 SAR' 000
Investments - Available for sale	**42,068**	96,137
- Originated debt	**725,669**	637,619
- Held to maturity	**150,073**	148,086
	917,810	881,842
Due from banks and other financial institutions	**48,292**	69,435
Loans and advances	**1,023,303**	989,192
Other	**28**	272
Total	**1,989,433**	1,940,741

Special commission expense

	2003 SAR' 000	2002 SAR' 000
Due to banks and other financial institutions	**193,077**	186,935
Customer deposits	**276,260**	345,594
Other	**44**	291
Total	**469,381**	532,820

18. Fees from banking services, net

	2003 SAR' 000	2002 SAR' 000
Fee income	**385,909**	276,754
Fee expenses	**121,700**	105,240
Net fee income	**264,209**	171,514

19. Trading income, net

	2003 SAR' 000	2002 SAR' 000
Derivatives	**9,954**	(442)
Other	**4,202**	-
Total	**14,156**	(442)

20. Dividend income

	2003 SAR' 000	2002 SAR' 000
Investments - Available for sale	**-**	18

21. Gains on investments, net

	2003 SAR' 000	2002 SAR' 000
Available for sale	**1,242**	14,312
Originated debt	**836**	21,708
Total	**2,078**	36,020

22. Other operating income

	2003 SAR' 000	2002 SAR' 000
Gains on disposal of fixed assets	**296**	944
Gains on disposal of other real estate	**340**	898
Recoveries of loans and advances previously written off	**3,479**	5,962
Other	**3,445**	3,172
Total	**7,560**	10,976

23. Other operating expenses

	2003 SAR' 000	2002 SAR' 000
Loss on disposal of other real estate	**30**	235
Loss on disposal of fixed assets	**136**	56
Unrealized revaluation loss on other real estate	**288**	100,568
Total	**454**	100,859

During 2002, 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.

24. Earnings per share

Basic 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 of 36 million (2002: 36 million).

25. Proposed gross dividend, zakat and income tax

Proposed gross dividend

The proposed gross dividend for the year is SAR 415.7 million (2002: SAR 449.4 million) and is included in other liabilities. The dividends are paid to the Saudi and the non Saudi shareholders after the deduction of zakat and income tax respectively as follows:

a) Saudi shareholders

Zakat attributable to Saudi shareholders for the year amounted to SAR 11.8 million (2002: SAR 10.4 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi shareholders of SAR 11 per share (2002: SAR 12 per share).

b) Non Saudi shareholders

Income tax payable on the current year's share of income is SAR 94.3 million (2002: SAR 83.4 million) which will be deducted from their share of the dividend payable for the year.

26. Cash and cash equivalents

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

	2003 SAR' 000	2002 SAR' 000
Cash and balances with SAMA excluding statutory deposit (note 3)	**442,366**	2,063,512
Due from banks and other financial institutions maturing within ninety days	**4,194,690**	4,136,952
Total	**4,637,056**	6,200,464

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 businesses and the 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 the Kingdom of 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.

a) The Bank's total assets and liabilities as at December 31, 2003 and 2002 and its total operating income, expenses, and net income for years then ended, by business segments, are as follows:

	(SAR' 000)			
2003	**Retail banking**	**Corporate banking**	**Treasury banking**	**Total**
Total assets	**7,717,771**	**14,497,205**	**26,985,914**	**49,200,890**
Total liabilities	**16,332,034**	**3,298,549**	**25,592,966**	**45,223,549**
Total operating income	**1,262,580**	**384,125**	**253,725**	**1,900,430**
Total operating expenses	**796,610**	**283,377**	**53,927**	**1,133,914**
Net income	**465,970**	**100,748**	**199,798**	**766,516**
2002				
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	1,151,457	338,635	213,325	1,703,417
Total operating expenses	765,707	313,178	40,504	1,119,389
Net income	385,750	25,457	172,821	584,028

b) The Bank's credit exposure by business segments is as follows:

	(SAR' 000)			
2003	**Retail banking**	**Corporate banking**	**Treasury banking**	**Total**
Balance sheet assets	**6,948,448**	**14,097,918**	**24,801,676**	**45,848,042**
Commitments and contingencies	**532,277**	**3,356,707**	**-**	**3,888,984**
Derivatives	**-**	**75,998**	**426,380**	**502,378**
2002				
Balance sheet assets	5,033,899	12,353,454	25,215,012	42,602,365
Commitments and contingencies	648,557	2,702,218	97,913	3,448,688
Derivatives	-	20,759	680,120	700,879

Credit exposure comprises the carrying value of balance sheet assets excluding cash, fixed assets, other real estate, other assets and the credit equivalent value of commitments, contingencies and derivatives.

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 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 securities included in investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. 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 the 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 portfolio 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.

29. Geographical concentration

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

(SAR' 000)

2003	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	1,675,847	-	1,979	-	-	-	-	1,677,826
Due from banks and other financial institutions	300,000	537,300	2,779,576	60,844	-	46,246	470,724	4,194,690
Investments, net	17,606,838	384,150	1,850,100	1,640,031	-	-	-	21,481,119
Loans and advances, net	17,776,381	1,670,364	725,488	-	-	-	-	20,172,233
Total	37,359,066	2,591,814	5,357,143	1,700,875	-	46,246	470,724	47,525,868
Liabilities								
Due to banks and other financial institutions	3,825,941	4,045,537	980,395	80,421	-	22,294	153,981	9,108,569
Customer deposits	33,624,481	41,606	44,845	745	-	-	11,317	33,722,994
Total	37,450,422	4,087,143	1,025,240	81,166	-	22,294	165,298	42,831,563
Commitments and contingencies	4,762,411	652,829	1,069,495	421,674	21,846	872,460	111,343	7,912,058
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	2,315,926	345,081	537,519	178,602	7,479	449,829	54,548	3,888,984
Derivatives	168,343	6,449	261,934	65,401	-	27	224	502,378

(SAR' 000)

2002	Kingdom of Saudi Arabia	Other GCC and 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	5,031,632	591,930	822,685	223,842	16,782	258,890	225,419	7,171,180
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	2,480,104	249,037	394,933	106,994	3,769	109,226	104,625	3,448,688
Derivatives	262,470	51,979	352,304	31,444	-	2,554	128	700,879

Balances shown in "due to banks and other financial institutions" under the Kingdom of Saudi Arabia include deposits SAR 300 million (2002: SAR 820 million), 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	
	2003 SAR' 000	**2002 SAR' 000**	**2003 SAR' 000**	**2002 SAR' 000**
Kingdom of Saudi Arabia	**1,025,638**	1,172,610	**1,379,236**	1,157,891
Europe	**78**	76	**8,567**	76
Total	**1,025,716**	1,172,686	**1,387,803**	1,157,967

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:

	2003 SAR' 000 Long (short)	**2002 SAR' 000 Long (short)**
US Dollar	**308,640**	316,540
Euro	**113**	594
Pound Sterling	**(34)**	(1,747)
Other	**16,953**	395

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 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.

2003	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate %
				(SAR' 000)			
Assets							
Cash and balances with SAMA	-	-	-	-	1,677,826	1,677,826	
Due from banks and other financial institutions	3,919,625	-	-	-	275,065	4,194,690	1.25
Investments, net	3,380,943	1,516,136	10,443,858	5,233,760	906,422	21,481,119	4.78
Loans and advances, net	10,219,486	5,297,183	4,026,297	588,192	41,075	20,172,233	6.02
Other real estate	-	-	-	-	201,297	201,297	
Fixed assets, net	-	-	-	-	323,084	323,084	
Other assets	-	-	-	-	1,150,641	1,150,641	
Total assets	17,520,054	6,813,319	14,470,155	5,821,952	4,575,410	49,200,890	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	6,976,943	1,946,894	-	-	184,732	9,108,569	1.66
Customer deposits	11,596,771	6,419,318	841,530		14,865,375	33,722,994	1.79
Other liabilities	-	-	-	-	2,391,986	2,391,986	
Shareholders' equity	-	-	-	-	3,977,341	3,977,341	
Total liabilities and shareholders' equity	18,573,714	8,366,212	841,530	-	21,419,434	49,200,890	
On balance sheet gap	(1,053,660)	(1,552,893)	13,628,625	5,821,952	(16,844,024)		
Off balance sheet gap	272,115	1,193,125	(1,148,461)	(316,779)	-		
Total commission rate sensitivity gap	(781,545)	(359,768)	12,480,164	5,505,173	(16,844,024)		
Cumulative commission rate sensitivity gap	(781,545)	(1,141,313)	11,338,851	16,844,024	-		

(SAR' 000)

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	-		

The off balance sheet gap represents the net notional amounts of derivative 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.

32. Liquidity risk

Liquidity risk is the risk that the Bank 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 become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate 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. In addition to the statutory deposit, 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 has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The maturity profile of the assets and liabilities is as follows:

(SAR' 000)

2003	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 Years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	**-**	**-**	**-**	**-**	**1,677,826**	**1,677,826**
Due from banks and other financial institutions	**3,919,625**	**-**	**-**	**-**	**275,065**	**4,194,690**
Investments, net	**138,000**	**1,180,511**	**13,214,290**	**6,041,896**	**906,422**	**21,481,119**
Loans and advances, net	**5,344,486**	**4,331,640**	**6,804,483**	**1,533,891**	**2,157,733**	**20,172,233**
Other real estate	**-**	**-**	**-**	**-**	**201,297**	**201,297**
Fixed assets, net	**-**	**-**	**-**	**-**	**323,084**	**323,084**
Other assets	**-**	**-**	**-**	**-**	**1,150,641**	**1,150,641**
Total assets	**9,402,111**	**5,512,151**	**20,018,773**	**7,575,787**	**6,692,068**	**49,200,890**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**6,976,944**	**1,946,894**	**-**	**-**	**184,731**	**9,108,569**
Customer deposits	**11,515,047**	**6,408,404**	**841,530**	**-**	**14,958,013**	**33,722,994**
Other liabilities	**-**	**-**	**-**	**-**	**2,391,986**	**2,391,986**
Shareholders' equity	**-**	**-**	**-**	**-**	**3,977,341**	**3,977,341**
Total liabilities and shareholders' equity	**18,491,991**	**8,355,298**	**841,530**	**-**	**21,512,071**	**49,200,890**

(SAR' 000)

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

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 values of originated debt and held to maturity investments are based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. The fair values of these investments are 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 regulations issued by SAMA. The balances at December 31 resulting from such transactions included in the financial statements are as follows:

	2003 SAR' 000	**2002 SAR' 000**
Arab Bank PLC		
Due from banks and other financial institutions	**520,355**	640,534
Due to banks and other financial institutions	**2,268,917**	2,716,791
Derivatives (at fair value)	**3,271**	702
Commitments and contingencies	**665,816**	673,353
Directors, other major shareholders and their affiliates:		
Loans and advances	**416,724**	349,580
Customer deposits	**3,645,615**	3,486,633
Commitments and contingencies	**253,010**	205,859
Bank's mutual funds:		
Investments	**84,715**	71,496
Loans and advances	**196**	190
Customer deposits	**588,305**	637,416

Other major shareholders represent shareholdings (excluding the non Saudi shareholder) of more than 5% of the Bank's issued share capital.

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

	2003 SAR' 000	**2002 SAR' 000**
Special commission income	**19,508**	22,599
Special commission expense	**115,152**	167,075
Fees from banking services	**20,165**	19,628
Directors' remuneration	**2,098**	2,117

35. Capital adequacy

The Bank monitors the adequacy of its capital using 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		Ratio %	
	2003 SAR' 000	2002 SAR' 000	2003	2002
Tier 1	**3,976,476**	3,564,998	**18%**	19%
Tier 1 + Tier 2	**4,367,382**	3,682,620	**20%**	20%

Risk weighted assets

	2003 SAR' 000			2002 SAR' 000		
	Carrying value or notional	Credit equivalent	Risk weighted assets	Carrying value or notional	Credit equivalent	Risk weighted assets
Balance sheets assets						
0 %	**24,539,198**		**-**	21,400,305		-
20 %	**6,451,355**		**1,290,271**	8,013,862		1,602,772
100 %	**18,210,337**		**18,210,337**	14,884,537		14,884,537
Total	**49,200,890**		**19,500,608**	44,298,704		16,487,309
Commitments and contingencies						
0 %	**1,873,736**	**917,234**	**-**	2,346,538	1,163,025	-
20 %	**913,179**	**400,803**	**80,160**	639,,898	272,546	54,509
100 %	**5,125,143**	**2,570,947**	**2,570,947**	4,184,744	2,013,117	2,013,117
Total	**7,912,058**	**3,888,984**	**2,651,107**	7,171,180	3,448,688	2,067,626
Derivatives						
20 %	**22,993,390**	**393,407**	**78,681**	22,540,796	570,718	114,143
50 %	**5,453,558**	**108,971**	**54,485**	6,375,347	130,161	65,081
Total	**28,446,948**	**502,378**	**133,166**	28,916,143	700,879	179,224
Total			**22,284,881**			18,734,159

36. Investment management services

The Bank offers investment services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The financial statements of these funds are not consolidated with these financial statements. However, the Bank's share of these funds is included in available for sale investments 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 current year's presentation.

38. Board of directors approval

The financial statements were approved by the Board of Directors on Dhul Qadah 21, 1424H (January 13, 2004).