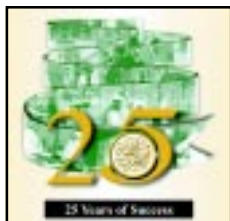




David Hodgkinson
Managing Director
The Saudi British Bank



THE SAUDI BRITISH BANK 2002 ANNUAL RESULTS

The Saudi British Bank (SABB) recorded a net profit of SAR972 million (US\$259 million) for the year ended 31 December 2002.

This represents an increase of 17.1 per cent over the SR830 million earned in 2001. Earnings per share increased to SR24.31 compared to SR20.75 for 2001.

Customer deposits increased to SR35.0 bn at 31 December 2002 up from SAR31.5 bn at 31 December 2001, reflecting growth in demand deposits.

Loans and advances to customers increased to SR20.4bn at 31 December 2002 from SAR16.0bn at 31 December 2001, reflecting growth across all major loan products.

David Hodgkinson, managing director, said: "Our performance for 2002 was encouraging despite the

low interest rate environment. The domestic economy displayed welcome resilience in the face of continued regional uncertainties and a slowdown of the global economy. Operating revenues continue to grow, while operating costs have been contained. Provisions for credit losses decreased significantly reflecting the improving quality of our lending portfolio. The bank's capital and liquidity position remain strong.

New products launched during the year were well received. The growth of our Al-Amanah Islamic Services has been strong. Four branches were converted to fully dedicated Islamic banking branches.

During the year we had many successes. One of the highlights was being selected as the flotation manager for the Saudi Telecom IPO, one of the largest in Saudi Arabia's history. This was part of a strong overall performance from our investment banking group. The bank continues to place priority on providing our customers with high quality service. The success of this strategy is reflected in the latest market surveys which indicate improved customer satisfaction levels.

We thank our customers for their support and our staff for their dedicated efforts during the year."

Extract from 'Saudi Arabia The Fiscal Budget 2003' prepared by SABB. The full publication may be obtained on www.sabb.com

The fiscal budget for 2003 (1423/24) was announced by the Council of Ministers in a series of statements and Royal decrees on 27 November 2002. As usual, in a statement by King Fahd, Custodian of the Two Holy Mosques, to accompany the budget there was a re-emphasis upon the desire to improve living standards for Saudi citizens, particularly through increased government spending upon human resource development and upon health and social services. Whilst SR22 bn was allocated to ongoing and new capital projects, this year's statement did not identify in the same detail as before where this would be spent. As in recent years therefore the vast majority of government spending will relate to current as opposed to capital expenditures, although the statement did indicate that the government was currently implementing more than SR90 bn worth of 'development projects'.

There are fewer surprises in this year's budget statement than certainly existed last year; in Dec 2001 the budget statement revealed that actual government spending in that year had reached a staggering SR255bn, supported by significant revenues of SR230bn - actual spending was some 18.6% above planned levels. For 2002, despite a better than expected revenue outturn, the government has restrained its spending levels with an actual increase of only SR23 bn, 11% above its target level; this demonstrates the Government's resolve to achieve 'prudent' spending levels which do not add significantly to the public debt burden - a policy objective supported fully by the IMF. The fiscal deficit was reduced to only 3% of GDP.

The hope must be that the Finance Ministry's pessimistic appraisal of the oil market will be proved wrong - indeed this is what the Ministry itself and the Saudi Government will be hoping for; in 2000 actual revenues exceeded projections in the budget by 58%; in 2001 the figure was 7% higher; this year actual revenues exceed projections by some 30%, SR47 billion higher than estimated in last year's budget. Given especially the regional uncertainty relating to Iraq at present, it is a very difficult time to predict what might happen, but our own estimates of revenue, that is our middle case scenario, are much

higher than the Finance Ministry's SR170 billion - at SR205bn.

As last year, figures released with the Budget Statement show a continuing dynamic economy - that is sustainable development in 2002; the private sector again leads the way and trade flows show yet again a significant, positive performance:

The provisional estimate of growth in nominal GDP in 2002 is put by the Finance Ministry at 2.3%, with real growth at 0.74%; nominal GDP is now estimated at SR695 bn with Real GDP at SR644 bn (1999 constant prices).

The non-oil private sector contributed 46% of GDP in 2002; provisional private sector growth is put at 4.2% in real terms and 3.7% at current prices. The Finance Ministry reports that all sub sectors have recorded growth with the non-oil industrial sector estimated growth at 5.7%, utilities, growth at 4.5%, transport and communications at 7.1 % and the construction sector growth at 3%; in the services sector, wholesale and retail trade (including hotels, restaurants) has a provisional growth estimate of 4% for 2002.

The Current Account of the Balance of Payments has maintained a healthy surplus in 2002 with provisional estimates at SR33.7 bn; this compares with SR35.1 bn in 2001. Most encouraging is the growth in non-oil exports; these grew by 1.2%, reaching SR31.1 bn in 2002; particularly impressive is the growth of non-petrochemical exports which now constitute 35% of non-oil exports; these increased by 30% in 2002. Since 1999 non-oil exports have grown by over SR9 bn, or by 42%.

Whilst the growth of broad money has increased from 1.8% in first 3Q 2001 to 6.7% over the same period in 2002, inflation remains under tight control and, together with the favourable trade situation, there is little pressure upon the Riyal exchange rate in this economic climate; the Finance Ministry applauds the strength of the banking sector where it reports that capital and reserves have increased by 7.8% and profitability by 7.9%. The cost of living index has fallen in 2002 by 0.4%, with the non-oil GDP deflator falling by 0.22%.

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