

# THE SAUDI INVESTMENT BANK

## BALANCE SHEET

As at December 31, 2005 and 2004

	Notes	2005 SAR'000	2004 SAR'000
<b>ASSETS</b>			
Cash and balances with SAMA	3	971,733	577,780
Due from banks and other financial institutions	4	6,797,725	5,996,062
Investments, net	5	11,276,185	8,501,657
Loans and advances, net	6	19,793,644	13,031,097
Fixed assets, net	7	204,610	144,804
Other assets	8	536,827	292,102
<b>Total assets</b>		<b>39,580,724</b>	<b>28,543,502</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	10	3,990,691	3,970,992
Customers' deposits	11	27,858,060	20,284,926
Other liabilities	12	1,000,262	680,799
Term loan	13	1,425,000	-
<b>Total liabilities</b>		<b>34,274,013</b>	<b>24,936,717</b>
<b>Shareholders' equity</b>			
Share capital	14	1,718,750	1,375,000
Statutory reserve	15	1,450,000	1,184,000
General reserve	15	687,500	362,750
Other reserves	16	1,318,970	585,026
Retained earnings		1,553	2,659
Proposed gross dividend	23	129,938	97,350
<b>Total shareholders' equity</b>		<b>5,306,711</b>	<b>3,606,785</b>
<b>Total liabilities and shareholders' equity</b>		<b>39,580,724</b>	<b>28,543,502</b>

The accompanying notes 1 to 37 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## STATEMENT OF INCOME

For the years ended December 31, 2005 and 2004

	Notes	2005 SAR'000	2004 SAR'000
Special commission income	18	1,745,973	980,998
Special commission expense	18	960,229	393,168
<b>Net special commission income</b>		<b>785,744</b>	<b>587,830</b>
Fees from banking services, net	19	655,714	335,042
Exchange income		27,440	14,221
Dividend income	20	21,763	16,384
Gains on non-trading investments, net	21	25,353	59,882
<b>Total operating income</b>		<b>1,516,014</b>	<b>1,013,359</b>
Salaries and employee-related expenses		223,985	167,347
Rent and premises-related expenses		33,578	26,806
Depreciation and amortization	7	23,921	17,468
Other general and administrative expenses		70,310	84,658
Provision for credit losses	6(b)	100,000	130,000
<b>Total operating expenses</b>		<b>451,794</b>	<b>426,279</b>
<b>Net income for the year</b>		<b>1,064,220</b>	<b>587,080</b>
<b>Earnings per share (in SAR)</b>	22	<b>30.96</b>	<b>17.08</b>

The accompanying notes 1 to 37 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2005 and 2004

		Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed gross dividend	Total
<b>2005</b>	<b>Notes</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
Balance at beginning of the								
year, as adjusted		1,375,000	1,184,000	362,750	585,026	2,659	97,350	3,606,785
Final dividend paid for the								
previous year	2(b), 12	-	-	-	-	-	(97,350)	(97,350)
Bonus share issue	14	343,750	-	(343,750)	-	-	-	-
Net income for the year		-	-	-	-	1,064,220	-	1,064,220
Transfer to statutory reserve	15	-	266,000	-	-	(266,000)	-	-
Transfer to general reserve	15	-	-	668,500	-	(668,500)	-	-
Proposed gross dividend	23	-	-	-	-	(129,938)	129,938	-
Net changes in fair value	16	-	-	-	733,944	(888)	-	733,056
<b>Balance at end of the year</b>		<b>1,718,750</b>	<b>1,450,000</b>	<b>687,500</b>	<b>1,318,970</b>	<b>1,553</b>	<b>129,938</b>	<b>5,306,711</b>
<b>2004</b>								
Balance at beginning of the								
year, as previously reported		1,100,000	1,037,000	294,000	160,575	40,393	-	2,631,968
Change in reporting for								
proposed gross dividend	2(b)	-	-	-	-	-	76,340	76,340
Balance at beginning of the								
year, as adjusted		1,100,000	1,037,000	294,000	160,575	40,393	76,340	2,708,308
Final dividend paid for the								
previous year	2(b)	-	-	-	-	-	(76,340)	(76,340)
Bonus share issue		275,000	-	(275,000)	-	-	-	-
Net income for the year		-	-	-	-	587,080	-	587,080
Transfer to statutory reserve	15	-	147,000	-	-	(147,000)	-	-
Transfer to general reserve	15	-	-	343,750	-	(343,750)	-	-
Proposed gross dividend	23	-	-	-	-	(97,350)	97,350	-
Net changes in fair value	16	-	-	-	424,451	(36,714)	-	387,737
Balance at end of the								
year, as adjusted		1,375,000	1,184,000	362,750	585,026	2,659	97,350	3,606,785

The accompanying notes 1 to 37 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## STATEMENT OF CASH FLOWS

For the years ended December 31, 2005 and 2004

	<b>Notes</b>	<b>2005 SAR'000</b>	<b>2004 SAR'000</b>
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the year</b>		<b>1,064,220</b>	<b>587,080</b>
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Accretion of discounts on investments, net		(160,463)	(97,975)
Gains on non-trading investments, net		(25,353)	(59,882)
Depreciation and amortization		23,921	17,468
Provision for credit losses		100,000	130,000
		<b>1,002,325</b>	<b>576,691</b>
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposits with SAMA	3	(58,274)	(143,517)
Due from banks and other financial institutions maturing after ninety days		(79,250)	355,994
Loans and advances		(6,862,547)	(2,929,512)
Other assets		(244,725)	(29,698)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		19,699	(115,146)
Customers' deposits		7,573,134	5,881,035
Other liabilities		319,463	170,817
<b>Net cash from operating activities</b>		<b>1,669,825</b>	<b>3,766,664</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and matured non-trading investments		3,603,221	4,773,964
Purchase of non-trading investments		(5,458,877)	(5,469,410)
Purchase of fixed assets, net		(83,727)	(64,352)
<b>Net cash used in investing activities</b>		<b>(1,939,383)</b>	<b>(759,798)</b>
<b>FINANCING ACTIVITIES</b>			
Term loan		1,425,000	-
Dividends paid		(97,350)	(76,340)
<b>Net cash from (used in) financing activities</b>		<b>1,327,650</b>	<b>(76,340)</b>
<b>Increase in cash and cash equivalents</b>		<b>1,058,092</b>	<b>2,930,526</b>
Cash and cash equivalents at beginning of the year		6,113,209	3,182,683
<b>Cash and cash equivalents at end of the year</b>	24	<b>7,171,301</b>	<b>6,113,209</b>
<b>Supplemental non cash information</b>			
Transfer from general reserve to share capital		343,750	275,000
Net changes in fair value		733,056	387,737
Proposed gross dividend		129,938	97,350

The accompanying notes 1 to 37 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

---

### 1. General

The Saudi Investment Bank (the Bank) (a Saudi Joint Stock Company) was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 16 branches (2004: 16 ) in the Kingdom of Saudi Arabia, and employing 700 employees (2004: 569). The address of the Bank's Head Office is as follows:

The Saudi Investment Bank  
Head Office  
P. O. Box 3533  
Riyadh 11481, Kingdom of Saudi Arabia

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

The Bank also provides non-commission bearing products, which are supervised by an independent Shariah Board.

### 2. Summary of significant accounting policies

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

Except for the change in accounting policies as detailed in note 2 (b) below, the accounting policies are consistent with those used in the previous year.

All non-commission bearing products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in note 2.

#### a) Basis of presentation

The Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS). The Bank also prepares its 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 available for sale investments.

In the ordinary course of business, the Bank makes certain estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

These financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

#### b) Change in accounting policies and reporting

The Bank has adopted the revised versions of International Accounting Standard (IAS) 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement effective January 1, 2005 with retrospective effect, wherever applicable, with respect to the recognition, measurement and disclosure of financial instruments.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2005 and 2004

---

### 2. Summary of significant accounting policies – continued

The revised IAS 39 has introduced a new classification “Fair Value through Income Statement (FVIS)” under which any financial assets and liabilities, except for equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, can be classified and carried at fair value with the changes in fair values recognized in the current year statement of income. This new classification includes financial assets and liabilities held for trading and items that are designated as fair value through income statement at the time of initial recognition. Following initial recognition, transfers between the various classifications of financial assets or liabilities are not ordinarily permissible. The Bank has not designated at initial recognition any financial assets or financial liability as at fair value through income statement.

There was no impact on opening retained earnings from the adoption of the revised IAS 39.

The Bank has also changed its reporting policy for proposed dividend. Previously, the Bank recognized a liability for dividend proposed by the Bank’s Board of Directors with a corresponding charge to retained earnings. The Bank no longer recognizes a liability for such proposed dividend until the Bank’s General Assembly votes to approve the payment, consistent with the requirements of the revised International Accounting Standard 10, which became effective as of January 1, 2005. This change was applied retroactively on January 1, 2004.

#### c) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date i.e. the date the asset is delivered to the counterparty. The Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. 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.

#### d) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, commission rate swaps and currency 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 as assets where the fair value is positive, and as 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. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

#### e) Foreign currencies

The financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank. Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on transactions of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2005 and 2004

---

### 2. Summary of significant accounting policies – continued

#### f) Offsetting

Financial assets and liabilities are offset and are 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 settle the liability simultaneously.

#### g) 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.

#### h) 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 financial assets held at amortized costs-other, 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 repurchase price is treated as special commission expense and is 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 the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement.

#### i) Investments, net

All investment securities are initially recognized at 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 market bid 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 various classes of investment securities, the subsequent period end reporting values are determined as follows:

##### (i) Available for sale

Investments which are classified "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as "other reserves" under Shareholders' equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the income statement for the period.

That portion of any fair value changes relating to an effective hedging relationship is recognized directly in the income statement.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2005 and 2004

---

### 2. Summary of significant accounting policies – continued

#### (ii) Held at amortized costs-other

Securities with fixed or determinable payments that are not quoted in an active market and are not held as available for sale, are classified as held at amortised costs-other. Amortized cost is calculated by taking into account any discount or premium on acquisition. Held at amortised costs-other whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Any gain or loss is recognised in the statement of income when the investment is derecognised or impaired.

#### (iii) Held to maturity

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of held at amortized costs-other are classified as held to maturity. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in value. Amortized costs is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

#### j) Investment in associates and joint ventures

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power or over which it exercises a significant influence. The carrying value of intangibles, which represents amounts paid in excess of the fair value of the tangible assets, is amortized over a period not exceeding 20 years.

Income/losses from joint venture arrangements, if any, in which the Bank has minority interest and significant influence are accounted for using the equity method.

#### k) Loans and advances

All loans and advances are initially measured at fair value. Following the initial recognition of the various classes of loans and advances, the subsequent period-end reporting values are determined on the basis as set out in the following paragraphs.

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

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.

Provision for credit losses, including those arising from sovereign risk exposures, if any, are based upon the management's assessment of the adequacy of the provision 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 credit losses is deducted from loans and advances.

#### l) 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 recognized for changes in its carrying amounts as follows:



# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2005 and 2004

---

### 2. Summary of significant accounting policies – continued

- (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 different types of loans and advances, whereas additional portfolio provisions are evaluated on a group basis. Additional portfolio provisions are created for losses where there is objective evidence that unidentified 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 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.

#### m) 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 the 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 income.

#### n) 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 the lease period or 5 years, whichever is the shorter
Furniture, equipment and vehicles	4 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in statement of income.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

---

### 2. Summary of significant accounting policies – continued

#### o) 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, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums are amortized and the discounts are accreted on a systematic basis to maturity and are taken to special commission income or expense.

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.

#### p) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

#### q) 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. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

#### r) 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.

#### s) Zakat and income taxes

Zakat and income taxes are the liabilities of Saudi nationals and foreign shareholders, respectively. Zakat is computed on the Saudi national shareholders' share of equity or net income, after certain adjustments. Income taxes are computed on the foreign shareholders' share of net income for the year after certain adjustments.

#### t) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

#### u) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by Saudi Arabian Labor Regulations and are included in "Other liabilities" in the balance sheet.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 3. Cash and balances with SAMA

	2005 SAR'000	2004 SAR'000
Cash in hand	452,826	117,147
Statutory deposit	518,907	460,633
<b>Total</b>	<b>971,733</b>	<b>577,780</b>

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

	2005 SAR'000	2004 SAR'000
Current accounts	223,188	14,597
Money market placements	6,574,537	5,981,465
<b>Total</b>	<b>6,797,725</b>	<b>5,996,062</b>

### 5. Investments, net

#### a) Investments are classified as follows:

##### i) Available for sale

	Domestic		International		Total	
	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000
Fixed rate securities	2,790,673	2,849,928	327,674	350,800	3,118,347	3,200,728
Floating rate notes	3,151,351	1,399,577	2,062,169	1,485,064	5,213,520	2,884,641
Equities	1,404,818	690,651	103,573	93,067	1,508,391	783,718
Mutual funds	880,840	102,078	44,151	41,357	924,991	143,435
<b>Total</b>	<b>8,227,682</b>	<b>5,042,234</b>	<b>2,537,567</b>	<b>1,970,288</b>	<b>10,765,249</b>	<b>7,012,522</b>

##### ii) Held at amortized costs-other

	Domestic		International		Total	
	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000
<b>Total fixed rate securities</b>	-	699,866	-	-	-	699,866

##### iii) Held to maturity

	Domestic		International		Total	
	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000
Fixed rate securities	350,212	511,303	-	-	350,212	511,303
Floating rate notes	-	152,095	-	-	-	152,095
<b>Total</b>	<b>350,212</b>	<b>663,398</b>	<b>-</b>	<b>-</b>	<b>350,212</b>	<b>663,398</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 5. Investments, net – continued

#### iv) Investment in associates

	Domestic		International		Total	
	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000
Total investment in associates	160,724	125,871	-	-	160,724	125,871
Total investments, net	8,738,618	6,531,369	2,537,567	1,970,288	11,276,185	8,501,657

#### b) The analysis of the composition of investments is as follows:

	2005			2004		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	327,674	3,140,885	3,468,559	350,800	4,061,097	4,411,897
Floating rate notes	2,062,169	3,151,351	5,213,520	1,485,064	1,551,672	3,036,736
Equities	1,505,891	2,500	1,508,391	783,718	-	783,718
Mutual funds	924,991	-	924,991	143,435	-	143,435
Investment in associates	-	160,724	160,724	-	125,871	125,871
Total investments, net	4,820,725	6,455,460	11,276,185	2,763,017	5,738,640	8,501,657

The unquoted securities above principally comprise Saudi Government Development Bonds (SGDBs). Such SGDBs are traded in a secondary market within the Kingdom of Saudi Arabia and their values are determined according to such market when available or an appropriate pricing model.

#### c) The analysis of unrealized gains and losses and the fair value of held at amortized costs-other and held to maturity investments, are as follows:

##### (i) Held at amortized costs-other

	2005				2004			
	Gross			Fair value SAR'000	Gross			Fair value SAR'000
	Carrying value SAR'000	Unrealized Gain SAR'000	Loss SAR'000		Carrying value SAR'000	Unrealized Gain SAR'000	Loss SAR'000	
Total fixed rate securities	-	-	-	-	699,866	17,306	-	717,172

##### (ii) Held to maturity

	2005				2004			
	Gross			Fair value SAR'000	Gross			Fair value SAR'000
	Carrying value SAR'000	Unrealized Gain SAR'000	Loss SAR'000		Carrying value SAR'000	Unrealized Gain SAR'000	Loss SAR'000	
Fixed rate securities	350,212	-	1,775	348,437	511,303	3,874	-	515,177
Floating rate notes	-	-	-	-	152,095	1,863	-	153,958
Total	350,212	-	1,775	348,437	663,398	5,737	-	669,135

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 5. Investments, net – continued

d) The analysis of investments, net by counterparty is as follows:

	2005 SAR'000	2004 SAR'000
Government and quasi government	3,526,221	2,487,141
Corporate	7,749,964	6,014,516
<b>Total</b>	<b>11,276,185</b>	<b>8,501,657</b>

Investments include SAR 5,078 million (2004: SAR 3,492 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 5,117 million (2004: SAR 3,513 million).

Retained earnings as at December 31, 2005 include SAR 734 million (2004: SAR 424 million) relating to available for sale investments due to the effect of implementing IAS 39. During 2005 an amount of SAR 0.9 million (2004: SAR 37 million) relating to the available for sale investments was transferred to the statement of income as a result of sale of part of these investments. The remaining balance relating to the available for sale investments will be transferred to the statement of income upon realization.

Investment in associates includes the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

Amex Saudi Arabia Limited	50%
Saudi Orix Leasing Company	28%

### 6. Loans and advances, net

#### a) Loans and advances

These are comprised of the following:

	2005 SAR'000	2004 SAR'000
Performing		
Commercial loans	12,306,327	8,214,160
Overdrafts	5,960,286	3,416,375
Consumer loans	2,000,530	1,749,484
Other	25,656	28,583
Performing loans and advances, gross	20,292,799	13,408,602
Non performing loans and advances, net	189,050	218,453
	20,481,849	13,627,055
Provision for credit losses	(688,205)	(595,958)
<b>Loans and advances, net</b>	<b>19,793,644</b>	<b>13,031,097</b>

Loans and advances, net include non-commission bearing products in respect of Murabaha agreements and Istisna'a which are stated at cost less provision for credit losses, of SAR 4,248 million (2004: SAR 3,014 million).

Non performing loans and advances are disclosed net of accumulated commission in suspense of SAR 164 million (2004: SAR 135 million).

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 6. Loans and advances, net – continued

#### b) Movements in provision for credit losses are as follows:

	2005 SAR'000	2004 SAR'000
Balance at beginning of the year	595,958	469,428
Provided during the year	100,000	130,000
Bad debts written off, net of recoveries	(7,753)	(3,470)
<b>Balance at end of the year</b>	<b>688,205</b>	<b>595,958</b>

#### c) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:

		Non performing, net	Provision for credit losses	Loans and advances, net
<u>2005</u>	Performing SAR'000	SAR'000	SAR'000	SAR'000
Government and quasi government	50,882	-	-	50,882
Banks and other financial institutions	678,695	-	-	678,695
Agriculture and fishing	78,103	-	(781)	77,322
Manufacturing	1,984,189	10,343	(41,797)	1,952,735
Electricity, water, gas and health services	94,269	-	(943)	93,326
Building and construction	3,380,303	250	(34,589)	3,345,964
Commerce	6,847,114	149,984	(448,738)	6,548,360
Transportation and communication	136,062	5,015	(14,497)	126,580
Services	1,401,883	17,488	(81,596)	1,337,775
Consumer loans	2,000,530	5,949	(28,774)	1,977,705
Other	3,640,769	21	(36,490)	3,604,300
<b>Total</b>	<b>20,292,799</b>	<b>189,050</b>	<b>(688,205)</b>	<b>19,793,644</b>

		Non performing, net	Provision for possible credit losses	Loans and advances, net
<u>2004</u>	Performing SAR'000	SAR'000	SAR'000	SAR'000
Government and quasi-government	63,196	-	-	63,196
Banks and other financial institutions	140,263	-	-	140,263
Agriculture and fishing	81,851	-	(819)	81,032
Manufacturing	1,815,121	11,003	(35,773)	1,790,351
Electricity, water, gas and health services	97,988	-	(980)	97,008
Building and construction	1,464,697	249	(15,310)	1,449,636
Commerce	4,083,135	150,955	(349,780)	3,884,310
Transportation and communication	193,747	7,732	(18,605)	182,874
Services	757,856	25,983	(82,573)	701,266
Consumer loans	1,749,484	746	(34,725)	1,715,505
Other	2,961,264	21,785	(57,393)	2,925,656
<b>Total</b>	<b>13,408,602</b>	<b>218,453</b>	<b>(595,958)</b>	<b>13,031,097</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 7. Fixed assets, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2005 SAR'000	Total 2004 SAR'000
<b>Cost</b>					
Balance at beginning of the year	102,122	22,014	133,843	257,979	195,031
Additions	48,195	3,544	31,991	83,730	64,361
Disposals	-	-	(585)	(585)	(1,413)
<b>Balance at end of the year</b>	<b>150,317</b>	<b>25,558</b>	<b>165,249</b>	<b>341,124</b>	<b>257,979</b>
<b>Accumulated depreciation</b>					
Balance at beginning of the year	5,900	12,975	94,300	113,175	97,111
Charge for the year	3,078	3,075	17,768	23,921	17,468
Disposals	-	-	(582)	(582)	(1,404)
<b>Balance at end of the year</b>	<b>8,978</b>	<b>16,050</b>	<b>111,486</b>	<b>136,514</b>	<b>113,175</b>
<b>Net book value</b>					
<b>As at December 31, 2005</b>	<b>141,339</b>	<b>9,508</b>	<b>53,763</b>	<b>204,610</b>	
As at December 31, 2004	96,222	9,039	39,543		144,804

### 8. Other assets

	2005 SAR'000	2004 SAR'000
Accrued commission income – banks and other financial institutions	25,800	7,605
– investments	43,423	42,849
– loans and advances	177,122	48,884
– other	16,887	21,867
<b>Total accrued commission income</b>	<b>263,232</b>	<b>121,205</b>
Accounts receivable	109,445	53,950
Positive fair value of derivatives (note 9)	4,166	14,981
Other real estate	35,124	48,310
Other	124,860	53,656
<b>Total</b>	<b>536,827</b>	<b>292,102</b>

### 9. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading 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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 9. Derivatives – continued

#### b) Forwards

Forwards 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 is transacted in standardized amounts on regulated exchanges.

#### c) 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 a fixed future date or at any time during a specified period, a specified amount of a currency 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.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity and monthly averages. 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 to market risk.

### DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2005	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Held for trading:</b>								
Commission rates swaps	2,712	-	311,200	-	311,200	-	-	311,200
Forward foreign exchange contracts	1,356	102	4,928,838	3,188,149	1,740,315	-	374	3,906,362
Currency options	98	-	37,500	-	37,500	-	-	391,462
<b>Total</b>	<b>4,166</b>	<b>102</b>	<b>5,277,538</b>	<b>3,188,149</b>	<b>2,089,015</b>	<b>-</b>	<b>374</b>	<b>4,609,024</b>

	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2004	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Held for trading:</b>								
Commission rates swaps	-	873	311,200	-	-	311,200	-	311,200
Forward foreign exchange contracts	14,870	13,263	1,962,100	1,058,128	903,559	-	413	1,964,608
Currency options	111	912	225,000	-	225,000	-	-	424,401
<b>Total</b>	<b>14,981</b>	<b>15,048</b>	<b>2,498,300</b>	<b>1,058,128</b>	<b>1,128,559</b>	<b>311,200</b>	<b>413</b>	<b>2,700,209</b>



# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2005 and 2004

### 9. Derivatives – continued

Approximately 99% (2004: 98%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 65% (2004: 41%) 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 and capital markets banking segment.

### 10. Due to banks and other financial institutions

	2005 SAR'000	2004 SAR'000
Current accounts	10,906	238,765
Money market deposits	3,979,785	3,732,227
<b>Total</b>	<b>3,990,691</b>	<b>3,970,992</b>

Money market deposits include deposits against sale of fixed rate bonds of SAR 1,184 million (2004: SAR 933 million) with agreements to repurchase the same at fixed future dates.

### 11. Customers' deposits

	2005 SAR'000	2004 SAR'000
Demand	1,961,344	1,435,792
Savings	2,459,736	1,935,857
Time	19,067,568	16,078,760
Other	4,369,412	834,517
<b>Total</b>	<b>27,858,060</b>	<b>20,284,926</b>

Time deposits include deposits against sales of securities of SAR 2,497 million (2004: SAR 1,548 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 94 million (2004: SAR 68 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2005 SAR'000	2004 SAR'000
Demand	221,525	154,475
Savings	247,870	43,367
Time	4,185,906	3,334,281
Other	168,122	201,140
<b>Total</b>	<b>4,823,423</b>	<b>3,733,263</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 12. Other liabilities

	2005 SAR'000	2004 SAR'000
Accrued commission expense – banks and other financial institutions	53,869	38,728
– customers' deposits	205,380	85,620
Total accrued commission expense	259,249	124,348
Negative fair value of derivatives (note 9)	102	15,048
Other	740,911	541,403
<b>Total</b>	<b>1,000,262</b>	<b>680,799</b>

In accordance with the change in the Bank's reporting for proposed dividend as described in note 2(b), other liabilities as of December 31, 2004 were decreased by SR 97.4 million as a result of such change.

### 13. Term Loan

On July 29, 2005, the Bank entered into a three-year syndicated term loan facility agreement for an amount of US\$ 380 million (SR 1,425 million) for general corporate purposes. The facility has been fully utilized and is repayable in August 2008. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related syndicated agreement.

### 14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 34.4 million shares (2004: 27.5 million shares) at SAR 50 each. The ownership of the Bank's share capital is as follows:

	2005 SAR'000	2004 SAR'000
Saudi shareholders	1,546,875	1,237,500
Foreign shareholders:		
J.P. Morgan International Finance Limited	128,906	103,125
Mizuho Corporate Bank Limited	42,969	34,375
	<b>1,718,750</b>	<b>1,375,000</b>

The Board of Directors proposed a bonus share issue of 6,875,000 shares of SAR 50 each, which was approved at the shareholders' extra-ordinary general assembly meeting, held on 14 Muharram 1426H (corresponding to 23 February 2005G). The bonus share issue resulted in a total of 34,375,000 shares issued and outstanding. The calculation of earnings per share for the year ended December 31, 2004 has been adjusted to reflect the bonus share issue in 2005.

The share capital increased from SR 1,375 million to SR 1,719 million, through a transfer from general reserve.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 15. Statutory 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 266 million has been transferred from 2005 net income (2004: SAR 147 million). The statutory reserve is not available for distribution.

On November 27, 2005, the Board of Directors approved a proposed transfer to general reserve amounting to SR 669 million with the intention to increase the Bank's share capital through a one for two and a half bonus share dividend subject to a final approval of the Extraordinary General Assembly Meeting.

In addition, the Bank makes appropriations to a general reserve for general banking risks.

### 16. Other reserves

	<b>Available for sale investments</b>	
	<b>2005</b>	2004
	<b>SAR'000</b>	SAR'000
Balance at beginning of the year	<b>585,026</b>	160,575
Net change in fair value	<b>759,239</b>	478,763
Transfer to statement of income	<b>(25,295)</b>	(54,312)
Net movement during the year	<b>733,944</b>	424,451
<b>Balance at end of the year</b>	<b>1,318,970</b>	585,026

### 17. Commitments and contingencies

#### a) Legal proceedings

As at December 31, 2005 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is unlikely that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome. Such provision is included in other general and administrative expenses.

#### b) Capital commitments

As at December 31, 2005, the Bank had capital commitments of SAR 69.4 million (2004: SAR 16.9 million) in respect of construction for the new branches and building expansion of its head office.

#### c) 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 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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 17. Commitment and contingencies – continued

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 are as follows:

	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
<b>2005</b>					
Letters of credit	318,567	243,200	68,637	-	630,404
Letters of guarantee	1,255,589	866,871	307,454	1,724	2,431,638
Acceptances	186,328	121,337	4,563	-	312,228
Irrevocable commitments to extend credit	-	-	4,787	89,239	94,026
<b>Total</b>	<b>1,760,484</b>	<b>1,231,408</b>	<b>385,441</b>	<b>90,963</b>	<b>3,468,296</b>
	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
<b>2004</b>					
Letters of credit	256,017	187,809	41,808	-	485,634
Letters of guarantee	501,665	1,223,550	336,661	2,643	2,064,519
Acceptances	154,268	81,554	-	-	235,822
Irrevocable commitments to extend credit	-	6,250	11,798	114,176	132,224
<b>Total</b>	<b>911,950</b>	<b>1,499,163</b>	<b>390,267</b>	<b>116,819</b>	<b>2,918,199</b>

The outstanding unused portion of commitments as at December 31, 2005 which can be revoked unilaterally at any time by the Bank, amounts to SAR 5,744 million (2004: SAR 8,272 million).

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

	2005 SAR'000	2004 SAR'000
Government and quasi government	1,545,332	1,393,601
Corporate	1,465,558	1,048,543
Banks and other financial institutions	454,893	393,833
Other	2,513	82,222
<b>Total</b>	<b>3,468,296</b>	<b>2,918,199</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 17. Commitment and contingencies – continued

#### d) Assets pledged

Assets pledged as collateral with other financial institutions for security deposits are as follows:

	2005		2004	
	Assets	Related	Assets	Related
	SAR'000	liabilities	SAR'000	liabilities
	SAR'000	SAR'000	SAR'000	SAR'000
Available for sale investments	<u>1,193,031</u>	<u>1,352,382</u>	<u>940,877</u>	<u>932,520</u>

#### e) Operating lease commitments

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

	2005	2004
	SAR'000	SAR'000
Less than 1 year	15,695	14,968
1 to 5 years	50,661	43,437
Over 5 years	52,755	56,556
<b>Total</b>	<u>119,111</u>	<u>114,961</u>

### 18. Special commission income and expense

	2005	2004
	SAR'000	SAR'000
<b>Special commission income</b>		
Investments - Available for sale	330,196	167,882
- Held at amortized costs-other	29,133	62,809
- Held to maturity	19,501	57,303
	<u>378,830</u>	<u>287,994</u>
Due from banks and other financial institutions	210,261	78,261
Loans and advances	<u>1,156,882</u>	<u>614,743</u>
<b>Total</b>	<u>1,745,973</u>	<u>980,998</u>

	2005	2004
	SAR'000	SAR'000
<b>Special commission expense</b>		
Due to banks and other financial institutions	174,603	78,767
Customers' deposits	684,787	304,047
Other	100,839	10,354
<b>Total</b>	<u>960,229</u>	<u>393,168</u>

Changes in the fair value of commission rate swaps amounting to SAR 3.6 million were credited to special commission income (2004: SAR 2.6 million, credited to special commission expense), as these derivatives did not qualify for hedge accounting.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 19. Fees from banking services, net

	2005 SAR'000	2004 SAR'000
Fee income	817,227	391,551
Fee expense	(161,513)	(56,509)
<b>Fees from banking services, net</b>	<b>655,714</b>	<b>335,042</b>

### 20. Dividend income

	2005 SAR'000	2004 SAR'000
Available for sale investments	20,354	13,374
Investments in associates	1,409	3,010
<b>Total</b>	<b>21,763</b>	<b>16,384</b>

### 21. Gains on non-trading investments, net

	2005 SAR'000	2004 SAR'000
Available for sale investments	25,353	59,882

### 22. Earnings per share

Basic earnings per share for the year 2005 are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year after giving effect to the increased shares as if issued at the beginning of the year. Earnings per share for 2004 have also been re-stated to reflect the issuance of bonus shares during 2005.

### 23. Proposed gross dividend, zakat and income tax

The Board of Directors proposed a gross dividend for the year amounting to SAR 129.9 million (2004: SAR 97.4 million). The dividend is paid to the Saudi and foreign shareholders after deduction of zakat and income tax, respectively, as follows:

#### a) Saudi shareholders:

Zakat attributable to Saudi national shareholders for the year amounted to SAR 24.3 million (2004: SAR 13.3 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi shareholders of SAR 3 per share (2004: SAR 3 per share).

#### b) Foreign shareholders:

Under the provisions of the Ministry of Finance and National Economy Decree No. 3/918 dated 20/5/1412H (26/11/1991G) as subsequently amended by Decree No. 3/1399 dated 27/5/1413H (23/11/1992G), the income tax liability of the non Saudi shareholders is determined as follows:

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 23. Proposed gross dividend, zakat and income tax – continued

- i) Deferred income tax on undistributed income for the post tax holiday period up to the year 1990, upon finalization of tax assessment, was payable in ten annual installments which commenced on March 31, 1992. Subsequently, all deferred tax liabilities of foreign shareholders were settled in 2005.
- ii) Income tax payable on the current year's share of income is SAR 33 million (2004: SAR 18 million). There is no deferred income tax outstanding as at December 31, 2005.

The share of dividend of the foreign shareholders will be paid after deducting the taxes due in full.

### 24. Cash and cash equivalents

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

	2005 SAR'000	2004 SAR'000
Cash and balances with SAMA excluding statutory deposits (note 3)	452,826	117,147
Due from banks and other financial institutions maturing within ninety days	6,718,475	5,996,062
Total	7,171,301	6,113,209

### 25. Business segments

For management purposes the Bank is organized into the following primary segments:

#### Retail banking

Deposits, credit and investment products for individuals, small to medium sized business.

#### Corporate banking

Loans, deposits and other credit products for corporate and institutional customers.

#### Treasury and capital markets

Money market, trading and treasury services as well as the management of the Bank's investment portfolio and funding operations.

Transactions between the business segments are on normal commercial terms and conditions. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

During 2005, the Bank entered into an agreement (the "Agreement") with a team of specialized investment portfolio managers who joined the Bank as part of a new investment portfolio unit (the "Unit") and the investment portfolio managed by them was transferred to the Unit.

During the period, the Bank has extinguished its rights to any share in the profits of the Unit until a pre-agreed amount of the profits from the effective date of the Agreement are allocated to the portfolio managers. Accordingly, no income from the Unit's operations is included in the statement of income for 2005.

During 2005, the Bank's share of the net income of the Unit which was allocated to the portfolio managers amounted to SAR 80.1 million. The Bank's share of the assets and liabilities of the Unit at December 31, 2005 were not significant.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 25. Business segments – continued

- a) The Bank's total assets and liabilities as at December 31, 2005 and 2004, and its total operating income, expenses and net income for the years then ended, by business segments, are as follows:

	(SAR in million)			
<u>2005</u>	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Total assets	12,535	8,578	18,468	39,581
Total liabilities	12,079	16,535	5,660	34,274
Total operating income	905	327	284	1,516
Total operating expenses	206	149	97	452
Net income	699	178	187	1,064

	(SAR in million)			
<u>2004</u>	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Total assets	6,881	7,075	14,588	28,544
Total liabilities	8,204	12,509	4,224	24,937
Total operating income	628	200	185	1,013
Total operating expenses	283	93	50	426
Net income	345	107	135	587

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

	(SAR in million)			
<u>2005</u>	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Balance sheet assets	12,535	8,578	18,468	39,581
Commitments and contingencies	534	1,120	-	1,654
Derivatives	-	-	101	101



## THE SAUDI INVESTMENT BANK

### NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

#### 25. Business segments – continued

	(SAR in million)			
<u>2004</u>	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Balance sheet assets	6,881	7,075	14,588	28,544
Commitments and contingencies	86	1,279	-	1,365
Derivatives	-	-	47	47

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.

#### 26. 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 by continually assessing the creditworthiness of counterparties.

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 the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty 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 summarized in note 9 and for commitments and contingencies in note 17.

The Bank has a credit classification and review system in place to assist in managing the quality of credit risk within its lending portfolio. The classification system includes 6 grades, of which 2 grades relate to the performing portfolio and the remaining grades relate to the non performing portfolio. These grades are being reviewed periodically to adapt to developments in credit classifications as guided by SAMA. A sectorial provision is allocated over the lending portfolio based on management experience and historical records. Specific provisions are maintained in respect of the non performing portfolio. Each borrower's grade is determined based on specific criteria, primarily financial performance, cash flow and other criteria. An independent credit review is done on a periodic basis.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 27. Geographical concentration

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

	(SAR in million)						Total
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	
<b>2005</b>							
<b>Assets</b>							
Cash and balances with SAMA	965	-	5	2	-	-	972
Due from banks and other financial institutions	5,521	527	706	41	3	-	6,798
Investments, net	8,738	-	-	2,538	-	-	11,276
Loans and advances, net	19,422	293	-	-	79	-	19,794
<b>Total</b>	<b>34,646</b>	<b>820</b>	<b>711</b>	<b>2,581</b>	<b>82</b>	<b>-</b>	<b>38,840</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	1,624	1,038	106	1,184	1	38	3,991
Customers' deposits	27,858	-	-	-	-	-	27,858
Term loan	168	525	694	-	38	-	1,425
<b>Total</b>	<b>29,650</b>	<b>1,563</b>	<b>800</b>	<b>1,184</b>	<b>39</b>	<b>38</b>	<b>33,274</b>
<b>Commitments and contingencies</b>	<b>2,871</b>	<b>116</b>	<b>130</b>	<b>263</b>	<b>1</b>	<b>87</b>	<b>3,468</b>
<b>Credit exposure</b>							
Commitments and contingencies	1,339	22	42	232	-	19	1,654
Derivatives	44	19	35	3	-	-	101

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 27. Geographical concentration – continued

	(SAR in million)						
2004	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
<b>Assets</b>							
Cash and balances with SAMA	578	-	-	-	-	-	578
Due from banks and other financial institutions	4,207	811	626	350	2	-	5,996
Investments, net	6,532	-	-	1,970	-	-	8,502
Loans and advances, net	12,559	391	-	-	81	-	13,031
<b>Total</b>	<b>23,876</b>	<b>1,202</b>	<b>626</b>	<b>2,320</b>	<b>83</b>	<b>-</b>	<b>28,107</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	2,743	265	28	934	1	-	3,971
Customers' deposits	20,285	-	-	-	-	-	20,285
<b>Total</b>	<b>23,028</b>	<b>265</b>	<b>28</b>	<b>934</b>	<b>1</b>	<b>-</b>	<b>24,256</b>
<b>Commitments and contingencies</b>	<b>2,301</b>	<b>67</b>	<b>196</b>	<b>231</b>	<b>123</b>	<b>-</b>	<b>2,918</b>
<b>Credit exposure</b>							
Commitments and contingencies	1,069	14	57	198	27	-	1,365
Derivatives	29	3	15	-	-	-	47

At December 31, 2005, the balances shown in due from and due to banks and other financial institutions under the Kingdom of Saudi Arabia do not include any money market placements and deposits on account of foreign branches of local banks.

- b) The geographical concentration of non-performing loans and advances and provision for credit losses as at December 31, 2005 and 2004 are entirely in the Kingdom of Saudi Arabia.

### 28. Currency risk

The Bank manages exposure to 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. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2005 SAR'000 Long (short)	2004 SAR'000 Long (short)
US Dollar	(2,275,025)	222,860
Euro	6,709	(250)
Pound Sterling	1,728	770
Others	229,910	2,460

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 29. Commission rate risk

#### Commission rate sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with the effect of fluctuations in prevailing levels of market commission rates on its financial position and cash flows. The tables below summarize the Bank's exposure to commission rate risks. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of 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.

	<u>2005</u>	(SAR in million)					Effective commission rate
		Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
<b>Assets</b>							
Cash and balances with SAMA		-	-	-	-	972	972
Due from banks and other financial institutions		6,495	8	71	-	224	6,798
Investments, net		6,131	1,335	814	-	2,996	11,276
Loans and advances, net		9,811	5,469	3,691	823	-	19,794
Fixed assets, net		-	-	-	-	205	205
Other assets		-	-	-	-	536	536
<b>Total assets</b>		<b>22,437</b>	<b>6,812</b>	<b>4,576</b>	<b>823</b>	<b>4,933</b>	<b>39,581</b>
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions		2,583	897	500	-	11	3,991
Customers' deposits		17,592	5,297	32	-	4,937	27,858
Other liabilities		-	-	-	-	1,000	1,000
Term loan		-	1,425	-	-	-	1,425
Shareholders' equity		-	-	-	-	5,307	5,307
<b>Total liabilities and shareholders' equity</b>		<b>20,175</b>	<b>7,619</b>	<b>532</b>	<b>-</b>	<b>11,255</b>	<b>39,581</b>
<b>On balance sheet gap</b>		<b>2,262</b>	<b>(807)</b>	<b>4,044</b>	<b>823</b>	<b>(6,322)</b>	<b>-</b>
<b>Off balance sheet gap</b>		<b>155</b>	<b>(155)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total commission rate sensitivity gap</b>		<b>2,417</b>	<b>(962)</b>	<b>4,044</b>	<b>823</b>	<b>(6,322)</b>	<b>-</b>
<b>Cumulative commission rate sensitivity gap</b>		<b>2,417</b>	<b>1,455</b>	<b>5,499</b>	<b>6,322</b>	<b>-</b>	<b>-</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 29. Commission rate risk – continued

	<u>2004</u>	(SAR in million)					Effective commission rate
		Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
<b>Assets</b>						<b>Total</b>	
Cash and balances with SAMA		-	-	-	-	578	-
Due from banks and other financial institutions		5,981	-	-	-	15	2.27%
Investments, net		3,506	2,210	1,587	146	1,053	3.90%
Loans and advances, net		6,156	3,762	2,481	632	-	5.30%
Fixed assets, net		-	-	-	-	145	-
Other assets		-	-	-	-	292	-
<b>Total assets</b>		<b>15,643</b>	<b>5,972</b>	<b>4,068</b>	<b>778</b>	<b>2,083</b>	<b>28,544</b>
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions		3,488	244	-	-	239	2.28%
Customers' deposits		13,330	2,617	132	-	4,206	2.71%
Other liabilities		-	-	-	-	681	-
Shareholders' equity		-	-	-	-	3,607	-
<b>Total liabilities and shareholders' equity</b>		<b>16,818</b>	<b>2,861</b>	<b>132</b>	<b>-</b>	<b>8,733</b>	<b>28,544</b>
On balance sheet gap		(1,175)	3,111	3,936	778	(6,650)	-
Off balance sheet gap		155	(155)	-	-	-	-
<b>Total commission rate sensitivity gap</b>		<b>(1,020)</b>	<b>2,956</b>	<b>3,936</b>	<b>778</b>	<b>(6,650)</b>	<b>-</b>
<b>Cumulative commission rate sensitivity gap</b>		<b>(1,020)</b>	<b>1,936</b>	<b>5,872</b>	<b>6,650</b>	<b>-</b>	<b>-</b>

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.

### 30. 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 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 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 into account 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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 30. Liquidity risk – continued

In accordance with Banking Control Law 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, gold, 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 Bank's assets and liabilities is as follows:

	(SAR in million)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
<b>2005</b>						
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	972	972
Due from banks and other financial institutions	6,495	8	71	-	224	6,798
Investments, net	832	1,213	2,875	3,360	2,996	11,276
Loans and advances, net	9,806	5,474	3,700	814	-	19,794
Fixed assets, net	-	-	-	-	205	205
Other assets	-	-	-	-	536	536
<b>Total assets</b>	<b>17,133</b>	<b>6,695</b>	<b>6,646</b>	<b>4,174</b>	<b>4,933</b>	<b>39,581</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	2,583	897	500	-	11	3,991
Customers' deposits	17,592	5,297	32	-	4,937	27,858
Other liabilities	-	-	-	-	1,000	1,000
Term loan	-	-	1,425	-	-	1,425
Shareholders' equity	-	-	-	-	5,307	5,307
<b>Total liabilities and shareholders' equity</b>	<b>20,175</b>	<b>6,194</b>	<b>1,957</b>	<b>-</b>	<b>11,255</b>	<b>39,581</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 30. Liquidity risk – continued

The maturity profile of the Bank's assets and liabilities is as follows: – continued.

2004	(SAR in million)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	578	578
Due from banks and other financial institutions	5,981	-	-	-	15	5,996
Investments, net	1,085	1,626	2,456	2,282	1,053	8,502
Loans and advances, net	6,208	3,710	1,840	1,273	-	13,031
Fixed assets, net	-	-	-	-	145	145
Other assets	-	-	-	-	292	292
<b>Total assets</b>	<b>13,274</b>	<b>5,336</b>	<b>4,296</b>	<b>3,555</b>	<b>2,083</b>	<b>28,544</b>
<b>Liabilities and shareholders' equity</b>						
Due from banks and other financial institutions	3,392	340	-	-	239	3,971
Customers' deposits	13,330	2,617	132	-	4,206	20,285
Other liabilities	-	-	-	-	681	681
Shareholders' equity	-	-	-	-	3,607	3,607
<b>Total liabilities and shareholders' equity</b>	<b>16,722</b>	<b>2,957</b>	<b>132</b>	<b>-</b>	<b>8,733</b>	<b>28,544</b>

### 31. 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 securities held at amortized costs-other, 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 the securities held at amortized costs-other 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 values of loans and advances and customers' deposits with sufficient reliability.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation models.

# TH SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 32. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The balances at December 31 resulting from such transactions included in the financial statements are as follows:

	2005 SAR'000	2004 SAR'000
<b>Foreign shareholders:</b>		
Due from banks and other financial institutions	366,640	5,431
Due to banks and other financial institutions	416	-
Commitments and contingencies	9,887	110,213
<b>Associates:</b>		
Investments, net	10,000	-
Loans and advances, net	-	11,814
Customers' deposits	9,534	10,063
Commitments and contingencies	62,000	54,000
<b>Directors, key management personnel, other major shareholders and their affiliates:</b>		
Due from banks and other financial institutions	130,000	1,264,981
Due to banks and other financial institutions	700,000	1,722,116
Loans and advances, net	801,939	475,502
Customers' deposits	2,947,685	2,619,903
Commitments and contingencies	695,878	242,747
<b>Mutual funds:</b>		
Investments, net	924,991	143,435
Customers' deposits	4,450	16,341

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

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

	2005 SAR'000	2004 SAR'000
Special commission income	72,494	20,550
Special commission expense	101,233	72,045
Fees from banking services	133,566	62,000

The total amount of compensation charged or paid to directors and key management personnel during the year is as follows:

	2005 SAR'000	2004 SAR'000
Short-term employee benefits	9,276	7,130
Post-employment benefits	892	2,000

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.



# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2005 and 2004

### 33. 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.

The 2004 capital balances and related ratios in the following table have been adjusted to reflect the Bank's retroactive change in its reporting for proposed dividend as described in note 2(b).

	2005		2004	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Tier 1	5,306,711	21%	3,606,785	22%
Tier 1 + Tier 2	5,617,988	23%	3,816,077	23%

### Risk weighted assets

	2005			2004		
	SAR'000			SAR '000		
	Carrying/ notional value	Credit equivalent	Risk weighted assets	Carrying/ notional value	Credit equivalent	Risk weighted assets
<b><u>Balance sheet assets</u></b>						
0%	4,999,438	4,999,438	-	3,155,859	3,155,859	-
20%	12,987,645	12,987,645	2,597,529	11,501,894	11,501,894	2,300,379
100%	21,593,641	21,593,641	21,593,641	13,885,749	13,885,749	13,885,749
<b>Total</b>	<b>39,580,724</b>	<b>39,580,724</b>	<b>24,191,170</b>	<b>28,543,502</b>	<b>28,543,502</b>	<b>16,186,128</b>
<b><u>Commitments and contingencies</u></b>						
0%	1,638,118	-	-	1,467,801	-	-
20%	548,919	126,081	64,294	393,833	97,127	39,383
100%	1,281,259	1,528,047	616,761	1,056,565	1,268,081	507,037
<b>Total</b>	<b>3,468,296</b>	<b>1,654,128</b>	<b>681,055</b>	<b>2,918,199</b>	<b>1,365,208</b>	<b>546,420</b>
<b><u>Derivatives</u></b>						
0%	-	-	-	8,504	170	-
20%	3,652,456	68,381	13,676	2,088,108	41,762	8,353
50%	1,625,082	32,502	16,251	401,688	4,922	2,461
<b>Total</b>	<b>5,277,538</b>	<b>100,883</b>	<b>29,927</b>	<b>2,498,300</b>	<b>46,854</b>	<b>10,814</b>
<b>Total</b>	<b>48,326,558</b>	<b>41,335,735</b>	<b>24,902,152</b>	<b>33,960,001</b>	<b>29,955,564</b>	<b>16,743,362</b>

## **THE SAUDI INVESTMENT BANK**

### **NOTES TO THE FINANCIAL STATEMENTS – continued**

**For the years ended December 31, 2005 and 2004**

---

#### **34. Investment management services**

The Bank offers investment services to its customers, which include management of investment funds in consultation with professional investment advisors. The financial statements of the funds are not consolidated with these financial statements. However, the Bank's share of the funds, if any, is included under 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.

The Bank also manages private investment portfolios on behalf of customers with managed assets totaling SR 5,408 million (2004: SR 2,012 million) out of which Islamic portfolio totaling of SAR 2,481 million (2004: SAR 1,731 million).

#### **35. Future changes in accounting policies**

Certain new IFRS's and amendments and interpretations to existing IFRS's and interpretations issued by International Financial Reporting Interpretation Committee (IFRIC) have been published in and are mandatory for the Bank's accounting periods beginning on or after January 1, 2006. Management is currently assessing the impact of these standards on the Bank's operations and its financial position.

These include:

IAS 39 - Fair Value Option (effective from January 1, 2006);

IFRS 7 - Financial Instruments Disclosures (effective from January 1, 2007); and

IFRIC 4 - Determining whether an Arrangement contains a Lease (effective from January 1, 2006).

#### **36. Comparative figures**

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

#### **37. Board of Director's approval**

The financial statements were approved by the Board of Directors on Dulhajja 18, 1426H corresponding to January 18, 2006.