

# THE SAUDI INVESTMENT BANK

## BALANCE SHEET

As at December 31, 2004 and 2003

	Notes	2004 SAR'000	2003 SAR'000
<b>ASSETS</b>			
Cash and balances with SAMA	3	577,780	541,891
Due from banks and other financial institutions	4	5,996,062	3,313,902
Investments	5	8,501,657	7,260,617
Loans and advances, net	6	13,031,097	10,231,585
Fixed assets, net	7	144,804	97,920
Other assets	8	292,102	262,404
<b>Total assets</b>		<b>28,543,502</b>	<b>21,708,319</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	10	3,970,992	4,086,138
Customers' deposits	11	20,284,926	14,403,891
Other liabilities	12	778,149	586,322
<b>Total liabilities</b>		<b>25,034,067</b>	<b>19,076,351</b>
<b>Shareholders' equity</b>			
Share capital	13	1,375,000	1,100,000
Statutory reserve	14	1,184,000	1,037,000
General reserve	14	362,750	294,000
Other reserves	15	585,026	160,575
Retained earnings		2,659	40,393
<b>Total shareholders' equity</b>		<b>3,509,435</b>	<b>2,631,968</b>
<b>Total liabilities and shareholders' equity</b>		<b>28,543,502</b>	<b>21,708,319</b>

# THE SAUDI INVESTMENT BANK

## STATEMENT OF INCOME

For the years ended December 31, 2004 and 2003

	Notes	2004 SAR'000	2003 SAR'000
Special commission income	17	980,998	867,552
Special commission expense	17	393,168	359,715
<b>Net special commission income</b>		<b>587,830</b>	<b>507,837</b>
Fees from banking services, net	18	335,042	163,250
Exchange income		14,221	12,573
Dividend income	19	16,384	11,391
Gains on investments, net	20	59,882	87,189
<b>Total operating income</b>		<b>1,013,359</b>	<b>782,240</b>
Salaries and employee related expenses		167,347	124,984
Rent and premises related expenses		26,806	23,087
Depreciation and amortization	7	17,468	13,590
Other general and administrative expenses		84,658	75,710
Provision for possible credit losses	6(b)	130,000	81,000
<b>Total operating expenses</b>		<b>426,279</b>	<b>318,371</b>
<b>Net income</b>		<b>587,080</b>	<b>463,869</b>
<b>Earnings per share (in SAR)</b>	21	<b>21.35</b>	<b>16.87</b>

# THE SAUDI INVESTMENT BANK

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

		Share Capital	Statutory Reserve	General Reserve	Other Reserves	Retained Earnings	Total
<u>2004</u>	<u>Notes</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year		1,100,000	1,037,000	294,000	160,575	40,393	2,631,968
Net income		-	-	-	-	587,080	587,080
Transfer to share capital	13	275,000	-	(275,000)	-	-	-
Transfer to statutory reserve	14	-	147,000	-	-	(147,000)	-
Transfer to general reserve	14	-	-	343,750	-	(343,750)	-
Proposed gross dividend	22	-	-	-	-	(97,350)	(97,350)
Net changes in fair value	15	-	-	-	424,451	(36,714)	387,737
<b>Balance at end of the year</b>		<b>1,375,000</b>	<b>1,184,000</b>	<b>362,750</b>	<b>585,026</b>	<b>2,659</b>	<b>3,509,435</b>
<u>2003</u>							
Balance at beginning of the year		1,100,000	921,000	19,000	65,847	54,140	2,159,987
Net income		-	-	-	-	463,869	463,869
Transfer to statutory reserve	14	-	116,000	-	-	(116,000)	-
Transfer to general reserve	14	-	-	275,000	-	(275,000)	-
Proposed gross dividend	22	-	-	-	-	(76,340)	(76,340)
Net changes in fair value	15	-	-	-	94,728	(10,276)	84,452
<b>Balance at end of the year</b>		<b>1,100,000</b>	<b>1,037,000</b>	<b>294,000</b>	<b>160,575</b>	<b>40,393</b>	<b>2,631,968</b>

# THE SAUDI INVESTMENT BANK

## STATEMENT OF CASH FLOWS

For the years ended December 31, 2004 and 2003

	<u>Notes</u>	<u>2004</u> <u>SAR'000</u>	<u>2003</u> <u>SAR'000</u>
<b>OPERATING ACTIVITIES</b>			
Net income		587,080	463,869
Adjustments to reconcile net income to net cash from			
Operating activities:			
Accretion of discounts on investments, net		(97,975)	(62,235)
Gains on investments, net		(59,882)	(87,189)
Depreciation and amortization		17,468	13,590
Provision for possible credit losses		130,000	81,000
		<u>576,691</u>	<u>409,035</u>
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposits with SAMA	3	(143,517)	(12,206)
Due from banks and other financial institutions maturing after			
Ninety days		355,994	651,136
Loans and advances		(2,929,512)	(1,421,802)
Other assets		(29,698)	41,592
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		(115,146)	1,161,774
Customers' deposits		5,881,035	338,902
Other liabilities		170,817	(23,672)
<b>Net cash from operating activities</b>		<u>3,766,664</u>	<u>1,144,759</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and matured investments		4,773,964	3,006,875
Purchase of investments		(5,469,410)	(3,579,947)
Purchase of fixed assets		(64,352)	(35,476)
<b>Net cash used in investing activities</b>		<u>(759,798)</u>	<u>(608,548)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(76,340)	(273,680)
<b>Net cash used in financing activities</b>		<u>(76,340)</u>	<u>(273,680)</u>
<b>Increase in cash and cash equivalents</b>		<u>2,930,526</u>	<u>262,531</u>
Cash and cash equivalents at beginning of the year		<u>3,182,683</u>	<u>2,920,152</u>
<b>Cash and cash equivalents at end of the year</b>	23	<u><u>6,113,209</u></u>	<u><u>3,182,683</u></u>
<b><u>Supplemental non cash information</u></b>			
Transfer from general reserve to share capital		<u>275,000</u>	-
Net changes in fair value		<u>387,737</u>	<u>84,452</u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003

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### 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 17 branches (2003: 15) in the Kingdom of Saudi Arabia, and employing 569 employees (2003: 470). 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.

### 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 Bank follows 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 issued 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 investment securities.

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

#### b) Settlement date accounting

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date the asset is delivered to the counterparty. 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

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 in assets where the fair value is positive, and in liabilities where the fair value is negative.

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

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

#### 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 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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2004 and 2003

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

#### e) 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.

#### 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 originated debt securities, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers' deposits", as appropriate. The difference between the sale and 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.

#### 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 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 as available for sale, are subsequently measured at fair value. 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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2004 and 2003

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

(ii) Originated debt

Securities, which are purchased directly from the issuer other than those purchased with the intent to be sold immediately or in the short term, are classified as originated debt investments. These investments are stated at amortized cost, less provision for impairment in value. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

(iii) Held to maturity

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

**(i) Investment in associates**

Investments in associates are 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.

**j) Loans and advances**

All loans and advances are initially measured at cost.

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 the timely collection of the full amount of principal and special commission.

Provision for possible 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 possible credit losses is deducted from loans and advances.

**k) 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, 2004 and 2003

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### 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 provisions are evaluated on a group basis. Further provisions are created for probable losses where there is objective evidence that potential losses are present at the balance sheet date. These are estimated based upon credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate as well as 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.

#### **l) 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.

#### **m) 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

#### **n) 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.



# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2004 and 2003

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

#### o) Accounting for leases

Leases entered into by the Bank 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.

#### p) 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.

#### q) Zakat and income taxes

Zakat and income taxes are the liabilities of Saudi national 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.

#### r) 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.

### 3. Cash and balances with SAMA

	2004 SAR'000	2003 SAR'000
Cash in hand	117,147	224,775
Statutory deposit	460,633	317,116
<b>Total</b>	<b>577,780</b>	<b>541,891</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

	2004 SAR'000	2003 SAR'000
Current accounts	14,597	20,428
Money market placements	5,981,465	3,293,474
<b>Total</b>	<b>5,996,062</b>	<b>3,313,902</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 5. Investments

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

##### i) Available for sale

	Domestic		International		Total	
	2004	2003	2004	2003	2004	2003
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	2,849,928	999,220	350,800	682,425	3,200,728	1,681,645
Floating rate notes	1,399,577	45,932	1,485,064	1,210,872	2,884,641	1,256,804
Equities	690,651	403,871	93,067	94,153	783,718	498,024
Mutual funds	102,078	-	41,357	-	143,435	-
<b>Total</b>	<b>5,042,234</b>	<b>1,449,023</b>	<b>1,970,288</b>	<b>1,987,450</b>	<b>7,012,522</b>	<b>3,436,473</b>

##### ii) Originated debt

	Domestic		International		Total	
	2004	2003	2004	2003	2004	2003
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Total fixed rate securities</b>	<b>699,866</b>	<b>1,881,442</b>	<b>-</b>	<b>-</b>	<b>699,866</b>	<b>1,881,442</b>

##### iii) Held to maturity

	Domestic		International		Total	
	2004	2003	2004	2003	2004	2003
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	511,303	1,106,526	-	24,315	511,303	1,130,841
Floating rate notes	152,095	684,143	-	-	152,095	684,143
<b>Total</b>	<b>663,398</b>	<b>1,790,669</b>	<b>-</b>	<b>24,315</b>	<b>663,398</b>	<b>1,814,984</b>

##### iv) Investment in associates

	Domestic		International		Total	
	2004	2003	2004	2003	2004	2003
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Total investment in associates</b>	<b>125,871</b>	<b>127,718</b>	<b>-</b>	<b>-</b>	<b>125,871</b>	<b>127,718</b>
<b>Total investments</b>	<b>6,531,369</b>	<b>5,248,852</b>	<b>1,970,288</b>	<b>2,011,765</b>	<b>8,501,657</b>	<b>7,260,617</b>

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

	2004			2003		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	350,800	4,061,097	4,411,897	682,425	4,011,502	4,693,927
Floating rate notes	1,485,064	1,551,672	3,036,736	1,210,872	730,076	1,940,948
Equities	783,718	-	783,718	498,024	-	498,024
Mutual funds	143,435	-	143,435	-	-	-
Investment in associates	-	125,871	125,871	-	127,718	127,718
<b>Total investments</b>	<b>2,763,017</b>	<b>5,738,640</b>	<b>8,501,657</b>	<b>2,391,321</b>	<b>4,869,296</b>	<b>7,260,617</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 5. Investments – continued

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 originated debt and held to maturity investments, are as follows:**

**(i) Originated debt**

	2004				2003			
	Gross				Gross			
	Carrying Value	Unrealized Gain	Unrealized Loss	Fair value	Carrying Value	Unrealized Gain	Unrealized Loss	Fair value
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Total fixed rate Securities	<u>699,866</u>	<u>17,306</u>	<u>-</u>	<u>717,172</u>	<u>1,881,442</u>	<u>70,729</u>	<u>-</u>	<u>1,952,171</u>

**(ii) Held to maturity**

	2004				2003			
	Gross				Gross			
	Carrying Value	Unrealized Gain	Unrealized Loss	Fair value	Carrying Value	Unrealized Gain	Unrealized Loss	Fair value
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	511,303	3,874	-	515,177	1,130,841	19,579	-	1,150,420
Floating rate notes	<u>152,095</u>	<u>1,863</u>	<u>-</u>	<u>153,958</u>	<u>684,143</u>	<u>10,104</u>	<u>-</u>	<u>694,247</u>
Total	<u>663,398</u>	<u>5,737</u>	<u>-</u>	<u>669,135</u>	<u>1,814,984</u>	<u>29,683</u>	<u>-</u>	<u>1,844,667</u>

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

	2004	2003
	SAR'000	SAR'000
Government and quasi government	2,487,141	2,881,661
Corporate	6,014,516	4,354,641
Banks and other financial institutions	-	24,315
<b>Total</b>	<u>8,501,657</u>	<u>7,260,617</u>

## THE SAUDI INVESTMENT BANK

### NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

#### 5. Investments – continued

Investments include SAR 3,492 million (2003: SAR 2,900 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 3,513 million (2003: SAR 2,898 million).

Retained earnings as at December 31, 2004 include SAR 424 million (2003: SAR 95 million) relating to available for sale investments due to the effect of implementing IAS 39. During 2004 an amount of SAR 37 million (2003: SAR 10 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) Originated loans and advances

These are comprised of the following:

	2004 SAR'000	2003 SAR'000
Performing		
Commercial loans	8,214,160	6,269,496
Overdrafts	3,416,375	2,337,667
Consumer loans	1,749,484	1,879,211
Other	28,583	19,037
Performing loans and advances, gross	13,408,602	10,505,411
Non performing loans and advances, net	218,453	195,602
	13,627,055	10,701,013
Provision for possible credit losses	(595,958)	(469,428)
<b>Originated loans and advances, net</b>	<b>13,031,097</b>	<b>10,231,585</b>

Non-performing loans and advances are disclosed net of accumulated commission in suspense of SAR 135 million (2003: SAR 95 million).

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

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

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

	2004 SAR'000	2003 SAR'000
Balance at beginning of the year	469,428	394,625
Provided during the year	130,000	81,000
Bad debts written off, net of recoveries	(3,470)	(6,197)
<b>Balance at end of the year</b>	<b>595,958</b>	<b>469,428</b>

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

	2004 Performing SAR'000	Non Performing, Net SAR'000	Provision For possible Credit Losses SAR'000	Loans and Advances, Net 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, 2004 and 2003

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

	2003	Performing SAR'000	Non Performing, Net SAR'000	Provision For possible Credit Losses SAR'000	Loans and Advances, Net SAR'000
Government and quasi-government		73,216	-	-	73,216
Banks and other financial institutions		161,846	-	-	161,846
Agriculture and fishing		144,615	-	(1,446)	143,169
Manufacturing		2,083,426	11,293	(37,117)	2,057,602
Electricity, water, gas and health services		33,500	-	(335)	33,165
Building and construction		828,673	1,067	(10,053)	819,687
Commerce		2,838,814	148,986	(295,241)	2,692,559
Transportation and communication		220,681	7,731	(18,431)	209,981
Services		930,390	8,739	(30,985)	908,144
Consumer loans		1,879,211	454	(38,113)	1,841,552
Other		1,311,039	17,332	(37,707)	1,290,664
Total		10,505,411	195,602	(469,428)	10,231,585

### 7. Fixed assets, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2004 SAR'000	Total 2003 SAR'000
<b>Cost</b>					
Balance at beginning of the year	62,166	15,805	117,060	195,031	161,181
Additions	39,956	6,209	18,196	64,361	35,510
Disposals	-	-	(1,413)	(1,413)	(1,660)
<b>Balance at end of the year</b>	<b>102,122</b>	<b>22,014</b>	<b>133,843</b>	<b>257,979</b>	195,031
<b>Accumulated depreciation</b>					
Balance at beginning of the year	4,020	11,208	81,883	97,111	85,147
Charge for the year	1,880	1,767	13,821	17,468	13,590
Disposals	-	-	(1,404)	(1,404)	(1,626)
<b>Balance at end of the year</b>	<b>5,900</b>	<b>12,975</b>	<b>94,300</b>	<b>113,175</b>	97,111
<b>Net book value</b>					
<b>As at December 31, 2004</b>	<b>96,222</b>	<b>9,039</b>	<b>39,543</b>	<b>144,804</b>	
As at December 31, 2003	58,146	4,597	35,177		97,920

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 8. Other assets

	2004 <u>SAR'000</u>	2003 <u>SAR'000</u>
Accrued commission income – banks and other financial institutions	7,605	6,667
– investments	42,849	81,779
– loans and advances	48,884	35,079
– other	21,867	15,254
Total accrued commission income	<u>121,205</u>	138,779
Accounts receivable	53,950	28,469
Positive fair value of derivatives (note 9)	14,981	11,244
Other real estate	48,310	48,310
Other	53,656	35,602
Total	<u>292,102</u>	<u>262,404</u>

### 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.

#### 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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 9. Derivatives – continued

#### 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
2004	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Held for trading:								
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>

	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
2003	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Held for trading:								
Commission rates swaps	-	3,433	311,200	-	-	311,200	-	597,247
Forward foreign exchange contracts	9,574	8,399	1,845,743	1,332,146	513,314	-	283	2,044,387
Currency options	1,670	1,592	84,727	81,913	2,814	-	-	168,362
<b>Total</b>	<b>11,244</b>	<b>13,424</b>	<b>2,241,670</b>	<b>1,414,059</b>	<b>516,128</b>	<b>311,200</b>	<b>283</b>	<b>2,809,996</b>

Approximately 98% (2003: 63%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 41% (2003: 22%) 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

	2004 SAR'000	2003 SAR'000
Current accounts	238,765	21,655
Money market deposits	3,732,227	4,064,483
<b>Total</b>	<b>3,970,992</b>	<b>4,086,138</b>

Money market deposits include deposits against sale of fixed rate bonds of SAR 933 million (2003: SAR 587 million) with agreements to repurchase the same at fixed future dates.



# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2004 and 2003

### 11. Customers' deposits

	2004 SAR'000	2003 SAR'000
Demand	1,435,792	1,177,328
Savings	1,935,857	620,816
Time	16,078,760	11,693,938
Other	834,517	911,809
<b>Total</b>	<b>20,284,926</b>	<b>14,403,891</b>

Time deposits include deposits against sales of securities of SAR 1,548 million (2003: SAR 1,488 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 68 million (2003: SAR 140 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2004 SAR'000	2003 SAR'000
Demand	154,475	91,992
Savings	43,367	52,679
Time	3,334,281	1,407,145
Other	201,140	85,820
<b>Total</b>	<b>3,733,263</b>	<b>1,637,636</b>

### 12. Other liabilities

	2004 SAR'000	2003 SAR'000
Accrued commission expense – banks and other financial institutions	38,728	26,172
– customers' deposits	85,620	46,022
Total accrued commission expense	124,348	72,194
Negative fair value of derivatives (note 9)	15,048	13,424
Proposed gross dividend (note 22)	97,350	76,340
Other	541,403	424,364
<b>Total</b>	<b>778,149</b>	<b>586,322</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 27.5 million shares at SAR 50 each (2003: 22 million shares). The ownership of the Bank's share capital is as follows:

	2004 SAR'000	2003 SAR'000
Saudi shareholders	1,237,500	990,000
Foreign shareholders:		
J.P. Morgan International Finance Limited	103,125	82,500
Mizuho Corporate Bank Limited	34,375	27,500
	<u>1,375,000</u>	<u>1,100,000</u>

During the Extraordinary General Assembly Meeting on 08 Muharram 1425H (corresponding to February 28, 2004G), the increase of share capital from SR 1.1 billion to SR 1.375 billion was approved. Accordingly, the number of shares outstanding during 2004 increased from 22,000,000 to 27,500,000.

### 14. 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 147 million has been transferred from 2004 net income (2003: SAR 116 million). The statutory reserve is not available for distribution.

On November 24, 2004, the Board of Directors has approved a proposed transfer to general reserve amounting to SR 344 million with the intention to increase the Bank's share capital through a one for four-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.

### 15. Other reserves

	Available for sale investments	
	2004 SAR'000	2003 SAR'000
Balance at beginning of the year	160,575	65,847
Net change in fair value	478,763	149,953
Transfer to statement of income	(54,312)	(55,225)
Net movement during the year	424,451	94,728
<b>Balance at end of the year</b>	<u><b>585,026</b></u>	<u><b>160,575</b></u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 16 . Commitments and contingencies

#### a) Legal proceedings

As at December 31, 2004 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 possibility of an adverse outcome. Such provision is included in other general and administrative expenses.

#### b) Capital commitments

As at December 31, 2004, the Bank had capital commitments of SAR 16.9 million (2003: SAR 11.6 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.

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 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>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 SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 16. Commitment and contingencies – continued

	Within 3 Months SAR'000	3-12 Months SAR'000	1-5 Years SAR'000	Over 5 Years SAR'000	Total SAR'000
<u>2003</u>					
Letters of credit	209,512	421,546	54,856	-	685,914
Letters of guarantee	622,855	566,363	412,996	2,512	1,604,726
Acceptances	239,330	123,093	915	-	363,338
Irrevocable commitments to extend credit	-	52,902	32,812	172,307	258,021
<b>Total</b>	<u>1,071,697</u>	<u>1,163,904</u>	<u>501,579</u>	<u>174,819</u>	<u>2,911,999</u>

The outstanding unused portion of commitments as at December 31, 2004 which can be revoked unilaterally at any time by the Bank, amounts to SAR 8,272 million (2003: SAR 7,701 million).

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

	<u>2004</u> <u>SAR'000</u>	<u>2003</u> <u>SAR'000</u>
Government and quasi government	<b>1,393,601</b>	774,750
Corporate	<b>1,048,543</b>	1,676,171
Banks and other financial institutions	<b>393,833</b>	359,859
Other	<b>82,222</b>	101,219
<b>Total</b>	<u><b>2,918,199</b></u>	<u>2,911,999</u>

#### d) Assets pledged

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

	2004		2003	
	Assets	Related Liabilities	Assets	Related Liabilities
	SAR'000	SAR'000	SAR'000	SAR'000
Available for sale investments	940,877	932,520	588,871	587,054

#### e) Operating lease commitments

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

	<u>2004</u> <u>SAR'000</u>	<u>2003</u> <u>SAR'000</u>
Less than 1 year	<b>14,968</b>	12,542
1 to 5 years	<b>43,437</b>	36,562
Over 5 years	<b>56,556</b>	53,437
<b>Total</b>	<u><b>114,961</b></u>	<u>102,541</u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 17. Special commission income and expense

	2004 <u>SAR'000</u>	2003 <u>SAR'000</u>
<b>Special commission income</b>		
Investments - Available for sale	167,882	107,607
- Originated debt	62,809	87,203
- Held to maturity	57,303	67,315
	<u>287,994</u>	<u>262,125</u>
Due from banks and other financial institutions	78,261	70,720
Loans and advances	614,743	534,707
<b>Total</b>	<u><u>980,998</u></u>	<u><u>867,552</u></u>

	2004 <u>SAR'000</u>	2003 <u>SAR'000</u>
<b>Special commission expense</b>		
Due to banks and other financial institutions	78,767	115,447
Customers' deposits	304,047	235,297
Other	10,354	8,971
<b>Total</b>	<u><u>393,168</u></u>	<u><u>359,715</u></u>

Changes in the fair value of commission rate swaps amounting to SAR 2.6 million were credited to special commission expense (2003: SAR 31 million, charged to special commission expense), as these derivatives did not qualify for hedge accounting.

### 18. Fees from banking services, net

	2004 <u>SAR'000</u>	2003 <u>SAR'000</u>
Fee income	391,551	186,077
Fee expense	(56,509)	(22,827)
<b>Fees from banking services, net</b>	<u><u>335,042</u></u>	<u><u>163,250</u></u>

### 19. Dividend income

	2004 <u>SAR'000</u>	2003 <u>SAR'000</u>
Available for sale investments	13,374	11,391
Investment in associates	3,010	-
<b>Total</b>	<u><u>16,384</u></u>	<u><u>11,391</u></u>

## THE SAUDI INVESTMENT BANK

### NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

#### 20. Gains on investments, net

	2004 <u>SAR'000</u>	2003 <u>SAR'000</u>
Available for sale investments	<u>59,882</u>	<u>87,189</u>

#### 21. Earnings per share

Basic earnings per share for the year 2004 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 2003 have also been re-stated to reflect such shares issued.

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

The Board of Directors has proposed a gross dividend for the year amounting to SAR 97.4 million (2003: SAR 76.3 million), which is included in other liabilities. The dividends are 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 13.3 million (2003: SAR 10.3 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi shareholders of SAR 3 per share (2003: 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 (23/1/1992G), the income tax liability of the non Saudi shareholders is determined as follows:

- 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 2004.
- ii) Income tax payable on the current year's share of income is SAR 18 million (2003: SAR 14.1 million). Deferred income tax as at December 31, 2004 is nil (2003: SAR 26 million).

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

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 23. Cash and cash equivalents

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

	2004 SAR'000	2003 SAR'000
Cash and balances with SAMA excluding statutory deposits (note 3)	117,147	224,775
Due from banks and other financial institutions maturing within ninety days	5,996,062	2,957,908
Total	6,113,209	3,182,683

### 24. 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.

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

a) The Bank's total assets and liabilities as at December 31, 2004 and 2003, and its total operating income, expenses and net income for the years then ended, by business segments, are as follows:

	(SAR in million)			
2004	Retail Banking	Corporate Banking	Treasury and capital markets	Total
Total assets	6,881	7,075	14,588	28,544
Total liabilities	8,301	12,509	4,224	25,034
Total operating income	628	200	185	1,013
Total operating expenses	283	93	50	426
Net income	345	107	135	587

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 24. Business segments – continued

	(SAR in million)			
<u>2003</u>	<u>Retail Banking</u>	<u>Corporate Banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Total assets	5,214	5,801	10,693	21,708
Total liabilities	7,366	7,279	4,431	19,076
Total operating income	379	235	168	782
Total operating expenses	163	112	43	318
Net income	216	123	125	464

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

	(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

	(SAR in million)			
<u>2003</u>	<u>Retail banking</u>	<u>Corporate Banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Balance sheet assets	5,214	5,801	10,693	21,708
Commitments and contingencies	263	1,040	-	1,303
Derivatives	-	-	36	36

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.

### 25. 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 SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 25. Credit Risk – continued

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 16.

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.

### 26. 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>2004</b>							
<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	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

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 26. Geographical concentration – continued

	(SAR in million)						Total
	Kingdom Of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	
<u>2003</u>							
<b>Assets</b>							
Cash and balances with SAMA	542	-	-	-	-	-	542
Due from banks and other financial institutions	2,479	570	99	90	76	-	3,314
Investments	5,250	24	-	1,987	-	-	7,261
Loans and advances, net	9,757	440	-	-	34	-	10,231
<b>Total</b>	<u>18,028</u>	<u>1,034</u>	<u>99</u>	<u>2,077</u>	<u>110</u>	<u>-</u>	<u>21,348</u>
<b>Liabilities</b>							
Due to banks and other financial institutions	2,807	420	265	594	-	-	4,086
Customers' deposits	14,404	-	-	-	-	-	14,404
<b>Total</b>	<u>17,211</u>	<u>420</u>	<u>265</u>	<u>594</u>	<u>-</u>	<u>-</u>	<u>18,490</u>
<b>Commitments and contingencies</b>	<u>1,994</u>	<u>62</u>	<u>254</u>	<u>270</u>	<u>322</u>	<u>10</u>	<u>2,912</u>
<b>Credit exposure</b>							
Commitments and contingencies	838	12	84	235	132	2	1,303
Derivatives	19	7	6	-	4	-	36

At December 31, 2004, 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 (2003: SAR 130 million in deposits).

- b) The geographical concentration of non-performing loans and advances and provision for possible credit losses as at December 31, 2004 and 2003 are entirely in the Kingdom of Saudi Arabia.

### 27. 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. The Bank had the following significant net exposures denominated in foreign currencies:

	2004 SAR'000 Long (short)	2003 SAR'000 Long (short)
US Dollar	222,860	(460,130)
Euro	(250)	2,610
Pound Sterling	770	800
Others	2,460	420

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 28. 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>2004</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		-	-	-	-	578	-
Due from banks and other financial institutions		5,981	-	-	-	15	2.27%
Investments		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		-	-	-	-	778	-
Shareholders' equity		-	-	-	-	3,510	-
<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>
<b>On balance sheet gap</b>		<b>(1,175)</b>	<b>3,111</b>	<b>3,936</b>	<b>778</b>	<b>(6,650)</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>(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 SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 28. Commission rate risk – continued

	<u>2003</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>						Total	
Cash and balances with SAMA		-	-	-	-	542	-
Due from banks and other financial institutions		2,938	356	-	-	20	1.39%
Investments		3,431	2,299	905	-	626	4.00%
Loans and advances, net		3,577	3,255	2,791	608	-	5.11%
Fixed assets, net		-	-	-	-	98	-
Other assets		-	-	-	-	262	-
<b>Total assets</b>		<b>9,946</b>	<b>5,910</b>	<b>3,696</b>	<b>608</b>	<b>1,548</b>	<b>-</b>
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions		3,139	925	-	-	22	1.92%
Customers' deposits		8,662	2,993	39	-	2,710	1.61%
Other liabilities		-	-	-	-	586	-
Shareholders' equity		-	-	-	-	2,632	-
<b>Total liabilities and shareholders' equity</b>		<b>11,801</b>	<b>3,918</b>	<b>39</b>	<b>-</b>	<b>5,950</b>	<b>-</b>
On balance sheet gap		(1,855)	1,992	3,657	608	(4,402)	-
Off balance sheet gap		155	(155)	-	-	-	-
<b>Total commission rate sensitivity gap</b>		<b>(1,700)</b>	<b>1,837</b>	<b>3,657</b>	<b>608</b>	<b>(4,402)</b>	<b>-</b>
<b>Cumulative commission rate sensitivity gap</b>		<b>(1,700)</b>	<b>137</b>	<b>3,794</b>	<b>4,402</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.

### 29. 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.

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 SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 29. Liquidity risk – continued

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>2004</b>						
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	578	578
Due from banks and other financial institutions	5,981	-	-	-	15	5,996
Investments	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 to banks and other financial institutions	3,392	340	-	-	239	3,971
Customers' deposits	13,330	2,617	132	-	4,206	20,285
Other liabilities	-	-	-	-	778	778
Shareholders' equity	-	-	-	-	3,510	3,510
<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>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 29. Liquidity risk – continued

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

2003	(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	-	-	-	-	542	542
Due from banks and other financial institutions	2,938	356	-	-	20	3,314
Investments	891	2,101	2,318	1,325	626	7,261
Loans and advances, net	3,622	3,224	2,740	645	-	10,231
Fixed assets, net	-	-	-	-	98	98
Other assets	-	-	-	-	262	262
<b>Total assets</b>	<b>7,451</b>	<b>5,681</b>	<b>5,058</b>	<b>1,970</b>	<b>1,548</b>	<b>21,708</b>
<b>Liabilities and shareholders' equity</b>						
Due from banks and other financial institutions	3,139	425	500	-	22	4,086
Customers' deposits	8,792	2,863	39	-	2,710	14,404
Other liabilities	-	-	-	-	586	586
Shareholders' equity	-	-	-	-	2,632	2,632
<b>Total liabilities and shareholders' equity</b>	<b>11,931</b>	<b>3,288</b>	<b>539</b>	<b>-</b>	<b>5,950</b>	<b>21,708</b>

### 30. 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 the 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 values of loans and advances and customer deposits with sufficient reliability.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 31. 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. 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 consolidated financial statements are as follows:

	2004 SAR'000	2003 SAR'000
<b>Foreign shareholders:</b>		
Due from banks and other financial institutions	5,431	2,441
Due to banks and other financial institutions	-	6,691
Commitments and contingencies	110,213	103,065
<b>Associates:</b>		
Loans and advances	11,814	34,500
Customers' deposits	10,063	13,034
Commitments and contingencies	54,000	10,500
<b>Directors, other major shareholders and their affiliates:</b>		
Due from banks and other financial institutions	1,264,981	400,000
Due to banks and other financial institutions	1,722,116	1,881,025
Loans and advances	467,671	83,607
Customers' deposits	2,613,592	2,320,858
Commitments and contingencies	242,747	414,636
<b>Mutual funds:</b>		
Investments	143,435	-
Customers' deposits	16,341	16,581

Other major shareholders represent shareholdings (excluding the foreign 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:

	2004 SAR'000	2003 SAR'000
Special commission income	20,550	20,463
Special commission expense	72,045	95,729
Fees from banking services	62,000	7,206
Directors' remuneration	1,390	1,456

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2004 and 2003

### 32. 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.

	2004		2003	
	Capital	Ratio %	Capital	Ratio %
	SAR'000		SAR'000	
Tier 1	3,509,435	21%	2,631,968	20%
Tier 1 + Tier 2	3,718,727	22%	2,793,417	22%

### Risk weighted assets

	2004			2003		
	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%	3,155,859	3,155,859	-	3,566,140	3,566,140	-
20%	11,501,894	11,501,894	2,300,379	7,582,693	7,582,693	1,516,539
100%	13,885,749	13,885,749	13,885,749	10,559,486	10,559,486	10,559,486
<b>Total</b>	<b>28,543,502</b>	<b>28,543,502</b>	<b>16,186,128</b>	<b>21,708,319</b>	<b>21,708,319</b>	<b>12,076,025</b>
<b><u>Commitments and contingencies</u></b>						
0%	1,467,801	-	-	914,919	432,064	-
20%	393,833	97,127	39,383	359,859	179,930	35,986
100%	1,056,565	1,268,081	507,037	1,637,221	793,451	793,451
<b>Total</b>	<b>2,918,199</b>	<b>1,365,208</b>	<b>546,420</b>	<b>2,911,999</b>	<b>1,405,445</b>	<b>829,437</b>
<b><u>Derivatives</u></b>						
0%	8,504	170	-	579,055	11,581	-
20%	2,088,108	41,762	8,353	255,115	5,102	1,020
50%	401,688	4,922	2,461	1,407,500	18,814	9,407
<b>Total</b>	<b>2,498,300</b>	<b>46,854</b>	<b>10,814</b>	<b>2,241,670</b>	<b>35,497</b>	<b>10,427</b>
<b>Total</b>	<b>33,960,001</b>	<b>29,955,564</b>	<b>16,743,362</b>	<b>26,861,988</b>	<b>23,149,261</b>	<b>12,915,889</b>



## **THE SAUDI INVESTMENT BANK**

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

**For the years ended December 31, 2004 and 2003**

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#### **33. Investment management services**

The Bank offers investment services to its customers, which include management of an investment fund in consultation with professional investment advisors. The financial statement of the fund is not consolidated with these financial statements. However, the Bank's share of the fund, 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.

#### **34. Comparative figures**

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

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

The financial statements were approved by the Board of Directors on Dulhajja 04, 1425H corresponding to January 15, 2005.