

# THE SAUDI INVESTMENT BANK

## BALANCE SHEET

As at December 31, 2003 and 2002

	<b>Notes</b>	<b>2003 SAR'000</b>	<b>2002 SAR'000</b>
<b>ASSETS</b>			
Cash and balances with SAMA	3	<b>541,891</b>	408,177
Due from banks and other financial institutions	4	<b>3,313,902</b>	3,824,015
Investments	5	<b>7,260,617</b>	6,453,669
Loans and advances, net	6	<b>10,231,585</b>	8,890,783
Fixed assets, net	7	<b>97,920</b>	76,034
Other assets	8	<b>262,404</b>	303,996
<b>Total assets</b>		<b><u>21,708,319</u></b>	<b><u>19,956,674</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	10	<b>4,086,138</b>	2,924,364
Customers' deposits	11	<b>14,403,891</b>	14,064,989
Other liabilities	12	<b>586,322</b>	807,334
<b>Total liabilities</b>		<b><u>19,076,351</u></b>	<b><u>17,796,687</u></b>
<b>Shareholders' equity</b>			
Share capital	13	<b>1,100,000</b>	1,100,000
Statutory reserve	14	<b>1,037,000</b>	921,000
General reserve	14	<b>294,000</b>	19,000
Other reserves	15	<b>160,575</b>	65,847
Retained earnings		<b>40,393</b>	54,140
<b>Total shareholders' equity</b>		<b><u>2,631,968</u></b>	<b><u>2,159,987</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>21,708,319</u></b>	<b><u>19,956,674</u></b>

The accompanying notes 1 to 35 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## STATEMENT OF INCOME

For the years ended December 31, 2003 and 2002

	Notes	2003 SAR'000	2002 SAR'000
Special commission income	17	867,552	850,322
Special commission expense	17	359,715	410,250
<b>Net special commission income</b>		<b>507,837</b>	<b>440,072</b>
Fees from banking services, net	18	163,250	101,025
Exchange income		12,573	7,974
Dividend income	19	11,391	38,015
Gains on investments, net	20	87,189	20,644
<b>Total operating income</b>		<b>782,240</b>	<b>607,730</b>
Salaries and employee-related expenses		124,984	107,718
Rent and premises-related expenses		23,087	21,502
Depreciation and amortization	7	13,590	13,655
Other general and administrative expenses		75,710	32,229
Provision for possible credit losses	6	81,000	52,265
<b>Total operating expenses</b>		<b>318,371</b>	<b>227,369</b>
<b>Net income</b>		<b>463,869</b>	<b>380,361</b>
<b>Earnings per share (in SAR)</b>	21	<b>21.08</b>	<b>17.29</b>

The accompanying notes 1 to 35 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

		Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total
<u>2003</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	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>		<u>1,100,000</u>	<u>1,037,000</u>	<u>294,000</u>	<u>160,575</u>	<u>40,393</u>	<u>2,631,968</u>
 <u>2002</u>							
Balance at beginning of the year		1,100,000	825,000	19,000	41,069	55,716	2,040,785
Net income		-	-	-	-	380,361	380,361
Transfer to statutory reserve	14	-	96,000	-	-	(96,000)	-
Proposed gross dividend	22	-	-	-	-	(273,680)	(273,680)
Net changes in fair value	15	-	-	-	24,778	(12,257)	12,521
<b>Balance at end of the year</b>		<u>1,100,000</u>	<u>921,000</u>	<u>19,000</u>	<u>65,847</u>	<u>54,140</u>	<u>2,159,987</u>

The accompanying notes 1 to 35 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## STATEMENT OF CASH FLOWS

For the years ended December 31, 2003 and 2002

	Notes	2003 SAR'000	2002 SAR'000
<b>OPERATING ACTIVITIES</b>			
<b>Net income</b>		<b>463,869</b>	380,361
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
(Accretion of discounts) and amortization of premium on investments, net		(62,235)	(116,927)
Gains on investments, net		(87,189)	(20,644)
Depreciation and amortization		13,590	13,655
Provision for possible credit losses		81,000	52,265
		<b>409,035</b>	308,710
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposits with SAMA	3	(12,206)	(61,586)
Due from banks and other financial institutions maturing after ninety days		651,136	(308,143)
Loans and advances		(1,421,802)	(1,415,919)
Other assets		41,592	(31,550)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		1,161,774	1,361,747
Customers' deposits		338,902	3,115,463
Other liabilities		(23,672)	18,560
<b>Net cash from operating activities</b>		<b>1,144,759</b>	2,987,282
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and matured investments		3,006,875	4,043,281
Purchase of investments		(3,579,947)	(4,525,260)
Purchase of fixed assets		(35,476)	(37,046)
<b>Net cash used in investing activities</b>		<b>(608,548)</b>	(519,025)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(273,680)	(183,920)
<b>Net cash used in financing activities</b>		<b>(273,680)</b>	(183,920)
<b>Increase in cash and cash equivalents</b>		<b>262,531</b>	2,284,337
Cash and cash equivalents at beginning of the year		2,920,152	635,815
<b>Cash and cash equivalents at end of the year</b>	23	<b>3,182,683</b>	2,920,152
<b>Supplemental non-cash information</b>			
Net changes in fair value		84,452	12,521

The accompanying notes 1 to 35 form an integral part of these financial statements.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2003 and 2002

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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 15 branches (2002: 15) in the Kingdom of Saudi Arabia, and employing 470 employees (2002: 438). 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), standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee, and complies 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 counter party. 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, 2003 and 2002

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

#### e) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and 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 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 whose 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, 2003 and 2002

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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. 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 operating 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 provisions for impairment.

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

Provisions for possible credit losses, including those arising from sovereign risk exposures, are based upon the management's assessment of the adequacy of the 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, provisions for possible credit losses are 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, 2003 and 2002

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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 shareholder's 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, and additional 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 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 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, 2003 and 2002

### 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 Arabian and foreign shareholders, respectively. Zakat is computed on the Saudi Arabian 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

	2003 <u>SAR'000</u>	2002 <u>SAR'000</u>
Cash in hand	224,775	101,091
Statutory deposit	317,116	304,910
Current account	-	2,176
<b>Total</b>	<b><u>541,891</u></b>	<b><u>408,177</u></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

	2003 <u>SAR'000</u>	2002 <u>SAR'000</u>
Current accounts	20,428	40,070
Money market placements	3,293,474	3,783,945
<b>Total</b>	<b><u>3,313,902</u></b>	<b><u>3,824,015</u></b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 5. Investments

#### a) Investment securities are classified as follows:

##### i) Available for sale

	Domestic		International		Total	
	2003	2002	2003	2002	2003	2002
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	999,219	956,042	682,425	1,102,490	1,681,644	2,058,532
Floating rate notes	45,932	108,119	1,210,872	963,348	1,256,804	1,071,467
Equities	403,872	269,156	94,153	63,090	498,025	332,246
<b>Total</b>	<b>1,449,023</b>	<b>1,333,317</b>	<b>1,987,450</b>	<b>2,128,928</b>	<b>3,436,473</b>	<b>3,462,245</b>

##### ii) Originated debt

	Domestic		International		Total	
	2003	2002	2003	2002	2003	2002
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Total fixed rate securities</b>	<b>1,881,442</b>	<b>1,512,403</b>	<b>-</b>	<b>-</b>	<b>1,881,442</b>	<b>1,512,403</b>

##### iii) Held to maturity

	Domestic		International		Total	
	2003	2002	2003	2002	2003	2002
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	1,106,526	732,331	24,315	24,207	1,130,841	756,538
Floating rate notes	684,143	595,418	-	-	684,143	595,418
<b>Total</b>	<b>1,790,669</b>	<b>1,327,749</b>	<b>24,315</b>	<b>24,207</b>	<b>1,814,984</b>	<b>1,351,956</b>

##### iv) Investment in associates

	Domestic		International		Total	
	2003	2002	2003	2002	2003	2002
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>Total investment in associates</b>	<b>127,718</b>	<b>127,065</b>	<b>-</b>	<b>-</b>	<b>127,718</b>	<b>127,065</b>
<b>Total investments</b>	<b>5,248,852</b>	<b>4,300,534</b>	<b>2,011,765</b>	<b>2,153,135</b>	<b>7,260,617</b>	<b>6,453,669</b>

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

	2003			2002		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	682,425	4,011,502	4,693,927	1,102,490	3,224,983	4,327,473
Floating rate notes	1,210,872	730,076	1,940,948	963,349	703,536	1,666,885
Equities	498,024	-	498,024	330,346	1,900	332,246
Investment in associates	-	127,718	127,718	-	127,065	127,065
<b>Total investments</b>	<b>2,391,321</b>	<b>4,869,296</b>	<b>7,260,617</b>	<b>2,396,185</b>	<b>4,057,484</b>	<b>6,453,669</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 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**

	2003				2002			
	Gross				Gross			
Carrying	Unrealized		Fair value	Carrying	Unrealized		Fair value	
value	Gain	Loss		value	Gain	Loss		
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	
Total fixed rate securities	1,881,442	70,729	-	1,952,171	1,512,403	77,737	-	1,590,140

**(ii) Held to maturity**

	2003				2002			
	Gross				Gross			
Carrying	Unrealized			Carrying	Unrealized			
value	Gain	Loss	Fair value	value	Gain	Loss	Fair value	
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	
Fixed rate securities	1,130,841	19,579	-	1,150,420	756,538	20,075	-	776,613
Floating rate notes	684,143	10,104	-	694,247	595,418	48,988	-	644,406
Total	1,814,984	29,683	-	1,844,667	1,351,956	69,063	-	1,421,019

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

	2003	2002
	SAR'000	SAR'000
Government and quasi Government	<u>2,881,661</u>	<u>2,463,950</u>
Corporate	<u>4,354,641</u>	<u>3,757,861</u>
Banks and other financial institutions	<u>24,315</u>	<u>231,858</u>
<b>Total</b>	<u><b>7,260,617</b></u>	<u><b>6,453,669</b></u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 5. Investments – continued

Investments include SAR 2,960 million (2002: SAR 3,493 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 2,898 million (2002: SAR 3,565 million).

Retained earnings as at December 31, 2003 include SAR 95 million (2002: SAR 105 million) relating to available-for-sale investments due to the effect of implementing IAS 39. During 2003 an amount of SAR 10 million (2002: SAR 12 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:

	2003 SAR'000	2002 SAR'000
Performing		
Overdrafts	2,337,667	1,262,646
Commercial loans	6,269,496	6,378,035
Consumer loans	1,879,211	1,369,597
Other	19,037	17,721
Performing loans and advances, gross	10,505,411	9,027,999
Non-performing loans and advances, net	195,602	257,409
	10,701,013	9,285,408
Provision for possible credit losses	(469,428)	(394,625)
<b>Originated loans and advances, net</b>	<b>10,231,585</b>	<b>8,890,783</b>

Non-performing loans and advances are disclosed net of accumulated commission in suspense of SAR 95 million (2002: SAR 60 million).

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

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

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

	2003 SAR'000	2002 SAR'000
Balance at beginning of the year	394,625	383,336
Provided during the year	81,000	52,265
Bad debts written off	(6,197)	(40,976)
<b>Balance at end of the year</b>	<b>469,428</b>	<b>394,625</b>

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

	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
<b>Total</b>	<b>10,505,411</b>	<b>195,602</b>	<b>(469,428)</b>	<b>10,231,585</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

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

<u>2002</u>	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	105,361	-	-	105,361
Banks and other financial institutions	132,275	-	-	132,275
Agriculture and fishing	97,089	-	(971)	96,118
Manufacturing	2,038,375	11,293	(32,183)	2,017,485
Electricity, water, gas and health services	40,500	-	(405)	40,095
Building and construction	779,492	10,949	(20,787)	769,654
Commerce	1,602,001	149,183	(213,844)	1,537,340
Transportation and communication	358,655	9,854	(14,520)	353,989
Services	1,520,293	57,136	(67,755)	1,509,674
Consumer loans	1,369,597	1,458	(15,600)	1,355,455
Other	984,361	17,536	(28,560)	973,337
<b>Total</b>	<b>9,027,999</b>	<b>257,409</b>	<b>(394,625)</b>	<b>8,890,783</b>

### 7. Fixed assets, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2003 SAR'000	Total 2002 SAR'000
<b><u>Cost</u></b>					
Balance at beginning of the year	51,934	13,688	95,559	161,181	126,857
Additions	10,232	2,117	23,161	35,510	37,046
Disposals	-	-	(1,660)	(1,660)	(2,722)
<b>Balance at end of the year</b>	<b>62,166</b>	<b>15,805</b>	<b>117,060</b>	<b>195,031</b>	<b>161,181</b>
<b><u>Accumulated depreciation</u></b>					
Balance at beginning of the year	3,017	9,431	72,699	85,147	74,214
Charge for the year	1,003	1,777	10,810	13,590	13,655
Disposals	-	-	(1,626)	(1,626)	(2,722)
<b>Balance at end of the year</b>	<b>4,020</b>	<b>11,208</b>	<b>81,883</b>	<b>97,111</b>	<b>85,147</b>
<b><u>Net book value</u></b>					
<b>As at December 31, 2003</b>	<b>58,146</b>	<b>4,597</b>	<b>35,177</b>	<b>97,920</b>	
<b>As at December 31, 2002</b>	<b>48,917</b>	<b>4,257</b>	<b>22,860</b>		<b>76,034</b>

Land and buildings include work in progress as at December 31, 2003 amounting to SAR nil (2002: SAR 18.4 million). Furniture, equipment and vehicles include information technology-related assets.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 8. Other assets

	2003 SAR'000	2002 SAR'000
Accrued commission income – banks and other financial institutions	6,667	28,298
– investments	81,779	100,936
– loans and advances	35,079	52,155
– other	15,254	14,408
Total accrued commission income	138,779	195,797
Accounts receivable	28,469	17,028
Positive fair value of derivatives (note 9)	11,244	19,571
Other real estate	48,310	43,969
Other	35,602	27,631
Total	262,404	303,996

### 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, counter-parties 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 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 market risk.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 9. Derivatives – continued

#### DERIVATIVE FINANCIAL INSTRUMENTS

<u>2003</u>	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
	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
Total	11,244	13,424	2,241,670	1,414,059	516,128	311,200	283	2,809,996

<u>2002</u>	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
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Held for trading:								
Commission rates swaps	1,884	52,040	1,206,708	-	302,000	405,043	499,665	1,071,244
Forward foreign exchange contracts	16,968	15,619	2,208,548	1,202,498	980,969	25,081	-	1,715,899
Currency options	719	719	11,760	11,760	-	-	-	246,144
Total	19,571	68,378	3,427,016	1,214,258	1,282,969	430,124	499,665	3,033,287

Approximately 63% (2002: 74%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 22% (2002: 15%) of the positive fair value contracts are with any single counter-party 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

	<b>2003</b> <b>SAR'000</b>	<b>2002</b> <b>SAR'000</b>
Current accounts	21,655	12,461
Money market deposits	4,064,483	2,911,903
<b>Total</b>	<b>4,086,138</b>	<b>2,924,364</b>

Money market deposits include deposits against sale of fixed rate bonds of SAR 587 million (2002: SAR 1,100 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, 2003 and 2002

### 11. Customers' deposits

	2003 SAR'000	2002 SAR'000
Demand	1,177,328	1,066,416
Savings	12,596	16,279
Time	12,302,158	12,373,530
Other	911,809	608,764
<b>Total</b>	<b>14,403,891</b>	<b>14,064,989</b>

Time deposits include deposits against sales of securities of SAR 1,488 million (2002: SAR 1,589 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 140 million (2002: SAR 100 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2003 SAR'000	2002 SAR'000
Demand	91,992	93,034
Savings	2,156	2,227
Time	1,457,668	2,957,539
Other	85,820	126,552
<b>Total</b>	<b>1,637,636</b>	<b>3,179,352</b>

### 12. Other liabilities

	2003 SAR'000	2002 SAR'000
Accrued commission expense – banks and other financial institutions	26,172	45,987
– customers' deposits	46,022	55,512
Total accrued commission expense	72,194	101,499
Negative fair value of derivatives (note 9)	13,424	68,378
Proposed gross dividend (note 22)	76,340	273,680
Other	424,364	363,777
<b>Total</b>	<b>586,322</b>	<b>807,334</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 22 million shares at SAR 50 each (2002: 22 million shares). The ownership of the Bank's share capital is as follows:

	2003 SAR'000	2002 SAR'000
Saudi shareholders	990,000	990,000
Foreign shareholders:		
J.P. Morgan International Finance Limited	82,500	82,500
Mizuho Corporate Bank Limited	27,500	27,500
	<u>1,100,000</u>	<u>1,100,000</u>

Foreign shareholders were formerly known as Chase Manhattan International Finance Limited, U.S.A. and The Industrial Bank of Japan Limited, Japan, respectively.

### 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 116 million has been transferred from 2003 net income (2002: SAR 96 million). The statutory reserve is not currently available for distribution.

On December 14, 2003 the Board of Directors has approved a proposed transfer to general reserve amounting to SR 275 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	
	2003 SAR'000	2002 SAR'000
Balance at beginning of the year	65,847	41,069
Net change in fair value	149,953	36,000
Transfer to statement of income	(55,225)	(11,222)
Net movement during the year	94,728	24,778
<b>Balance at end of the year</b>	<u>160,575</u>	<u>65,847</u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 16 . Commitments and contingencies

#### a) Legal proceedings

As at December 31, 2003 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 eventuate. 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, 2003, the Bank had capital commitments of SAR 11.6 million (2002:SAR 7.8 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
<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
Firm commitments to extend credit	-	52,902	32,812	172,307	258,021
<b>Total</b>	<b>1,071,697</b>	<b>1,163,904</b>	<b>501,579</b>	<b>174,819</b>	<b>2,911,999</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 16. Commitment and contingencies – continued

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
<u>2002</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Letters of credit	572,893	293,779	65,429	-	932,101
Letters of guarantee	597,967	604,420	392,706	3,692	1,598,785
Acceptances	145,241	134,058	1,546	-	280,845
Firm commitments to extend credit	80,465	122,403	-	-	202,868
<b>Total</b>	<b>1,396,566</b>	<b>1,154,660</b>	<b>459,681</b>	<b>3,692</b>	<b>3,014,599</b>

The outstanding unused portion of commitments as at December 31, 2003 which can be revoked unilaterally at any time by the Bank, amounts to SAR 7,701 million (2002: SAR 8,437 million).

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

	<b>2003</b> <b>SAR'000</b>	<b>2002</b> <b>SAR'000</b>
Government and quasi Government	<b>774,750</b>	945,532
Corporate	<b>1,676,171</b>	1,600,630
Banks and other financial institutions	<b>359,859</b>	407,462
Other	<b>101,219</b>	60,975
<b>Total</b>	<b>2,911,999</b>	<b>3,014,599</b>

#### d) Assets pledged

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

	2003		2002	
	Assets	Related liabilities	Assets	Related liabilities
	SAR'000	SAR'000	SAR'000	SAR'000
Available for sale investments	588,871	587,054	1,003,723	1,100,432

#### e) Operating lease commitments

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

	<b>2003</b> <b>SAR'000</b>	<b>2002</b> <b>SAR'000</b>
Less than 1 year	<b>12,542</b>	12,412
1 to 5 years	<b>36,562</b>	37,651
Over 5 years	<b>53,437</b>	54,928
<b>Total</b>	<b>102,541</b>	<b>104,991</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 17. Net special commission income

	2003 <u>SAR'000</u>	2002 <u>SAR'000</u>
<b>Special commission income</b>		
Investments - Available for sale	107,607	189,513
- Originated debt	87,203	94,099
- Held to maturity	67,315	68,186
	<u>262,125</u>	<u>351,798</u>
Due from banks and other financial institutions	70,720	50,708
Loans and advances	534,707	447,816
<b>Total</b>	<u><u>867,552</u></u>	<u><u>850,322</u></u>

	2003 <u>SAR'000</u>	2002 <u>SAR'000</u>
<b>Special commission expense</b>		
Due to banks and other financial institutions	115,447	83,369
Customers' deposits	235,297	322,105
Other	8,971	4,776
<b>Total</b>	<u><u>359,715</u></u>	<u><u>410,250</u></u>

Changes in the fair value of commission rate swaps amounting to SAR 31 million (2002: SAR 46 million) are charged to special commission expense as these derivatives did not qualify for hedge accounting.

### 18. Fees from banking services, net

	2003 <u>SAR'000</u>	2002 <u>SAR'000</u>
Fee income	186,077	107,907
Fee expense	(22,827)	(6,882)
	<u><u>163,250</u></u>	<u><u>101,025</u></u>

### 19. Dividend income

	2003 <u>SAR'000</u>	2002 <u>SAR'000</u>
Available for sale investments	11,391	14,242
Investment in associates	-	23,773
<b>Total</b>	<u><u>11,391</u></u>	<u><u>38,015</u></u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 20. Gains on investments, net

	2003 SAR'000	2002 SAR'000
Available for sale investments	87,189	20,644

### 21. Earnings per share

Basic earnings per share are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during 2003, 22 million shares (2002: 22 million shares).

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

The Board of Directors has proposed a gross dividend for the year amounting to SAR 76.3 million (2002: SAR 273.7 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 shareholders for the year amounted to SAR 10.3 million (2002: SAR 8.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi shareholders of SAR 3.00 per share (2002: SAR12 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, will be payable in ten annual installments which commenced on March 31, 1992.
- ii) Income tax payable on the current year's share of income is SAR 14.1 million (2002: SAR 11.6 million). Deferred income tax as at December 31, 2003 is SAR 26 million (2002: SAR 26 million).

The annual income tax liability of the foreign shareholders will be the aggregate of (i) and (ii) above, restricted to 75% of its share of cash dividend for the year. Any income tax liability in excess of 75% of the share of dividend will be carried forward and settled in the future in accordance with the above mentioned limit. However, in accordance with the instructions received by the Bank during 2001, the foreign shareholder should settle in full any income tax liability deferred, at the time of filing the tax declaration for the year ended December 31, 2002.

The share of dividend of the foreign shareholders will be paid after deducting the related taxes due as described above.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 23. Cash and cash equivalents

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

	2003 SAR'000	2002 SAR'000
Cash and balances with SAMA excluding statutory deposits (note 3)	224,775	103,267
Due from banks and other financial institutions maturing within ninety days	2,957,908	2,816,885
Total	3,182,683	2,920,152

### 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, 2003 and 2002, and its total operating income, expenses and net income for the years then ended, by business segments, are as follows:**

	(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

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 24. Business segments – continued

<u>2002</u>	(SAR in million)			<u>Total</u>
	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	
Total assets	3,669	5,885	10,403	19,957
Total liabilities	7,259	7,668	2,870	17,797
Total operating income	187	261	159	607
Total operating expenses	103	92	32	227
Net income	84	169	127	380

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

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

<u>2002</u>	(SAR in million)			<u>Total</u>
	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	
Balance sheet assets	3,669	5,885	10,403	19,957
Commitments and contingencies	487	780	-	1,267
Derivatives	-	-	37	37

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 continually assessing the creditworthiness of counter-parties.

Concentrations of credit risk arise when a number of counter-parties 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, 2003 and 2002

### 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 counter-party is provided in note 5. For details of the composition of the loans and advances, refer to Note 6. Information on credit risk relating to derivative instruments is 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)							
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
<b>2003</b>							
<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>	<b>18,028</b>	<b>1,034</b>	<b>99</b>	<b>2,077</b>	<b>110</b>	<b>-</b>	<b>21,348</b>
<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>	<b>17,211</b>	<b>420</b>	<b>265</b>	<b>594</b>	<b>-</b>	<b>-</b>	<b>18,490</b>
<b>Commitments and contingencies</b>	<b>1,994</b>	<b>62</b>	<b>254</b>	<b>270</b>	<b>322</b>	<b>10</b>	<b>2,912</b>
<b>Credit exposure</b>							
Commitments and contingencies	838	12	84	235	132	2	1,303
Derivatives	19	7	6	-	4	-	36

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 26. Geographical concentration – continued

	(SAR in million)						
2002	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
<b>Assets</b>							
Cash and balances with SAMA	408	-	-	-	-	-	408
Due from banks and other financial institutions	2,012	625	1,130	55	2	-	3,824
Investments	4,301	118	299	1,736	-	-	6,454
Loans and advances, net	8,270	539	-	-	82	-	8,891
<b>Total</b>	<b>14,991</b>	<b>1,282</b>	<b>1,429</b>	<b>1,791</b>	<b>84</b>	<b>-</b>	<b>19,577</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	1,200	557	67	1,100	-	-	2,924
Customers' deposits	14,065	-	-	-	-	-	14,065
<b>Total</b>	<b>15,265</b>	<b>557</b>	<b>67</b>	<b>1,100</b>	<b>-</b>	<b>-</b>	<b>16,989</b>
<b>Commitments and contingencies</b>	<b>1,953</b>	<b>118</b>	<b>204</b>	<b>259</b>	<b>472</b>	<b>9</b>	<b>3,015</b>
<b>Credit exposure</b>							
Commitments and contingencies	873	17	49	218	109	1	1,267
Derivatives	19	1	15	2	-	-	37

The balances shown in due from and due to banks and other financial institutions under the Kingdom of Saudi Arabia include money market placements of SAR nil (2002: SAR 675 million) and deposits of SAR 130 million (2002: SAR 341 million), respectively, on account of foreign branches of local banks.

- b) The geographical concentration of non-performing loans and advances and provision for possible credit losses as at December 31, 2003 and 2002 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:

	2003 SAR'000 Long (short)	2002 SAR'000 Long (short)
US Dollar	(460,130)	(568,180)
Euro	2,610	(330)
Pound Sterling	800	710
Others	420	(230)

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 28. Commission rate risk

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

The Bank manages exposure to the effects of various risks associated with 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>2003</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		-	-	-	-	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>21,708</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>21,708</b>
<b>On balance sheet gap</b>		<b>(1,855)</b>	<b>1,992</b>	<b>3,657</b>	<b>608</b>	<b>(4,402)</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>(1,700)</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 SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 28. Commission rate risk – continued

Assets	2002	(SAR in million)					Effective commission rate
		Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Cash and balances with SAMA		-	-	-	-	408	408
Due from banks and other financial institutions		3,388	436	-	-	-	3,824
Investments		1,679	2,332	1,984	-	459	6,454
Loans and advances, net		2,417	3,078	2,786	503	107	8,891
Fixed assets, net		-	-	-	-	76	76
Other assets		-	-	-	-	304	304
<b>Total assets</b>		<b>7,484</b>	<b>5,846</b>	<b>4,770</b>	<b>503</b>	<b>1,354</b>	<b>19,957</b>
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions		2,574	350	-	-	-	2,924
Customers' deposits		8,801	2,806	-	-	2,458	14,065
Other liabilities		-	-	-	-	808	808
Shareholders' equity		-	-	-	-	2,160	2,160
<b>Total liabilities and shareholders' equity</b>		<b>11,375</b>	<b>3,156</b>	<b>-</b>	<b>-</b>	<b>5,426</b>	<b>19,957</b>
On balance sheet gap		(3,891)	2,690	4,770	503	(4,072)	-
Off balance sheet gap		519	(519)	-	-	-	-
<b>Total commission rate sensitivity gap</b>		<b>(3,372)</b>	<b>2,171</b>	<b>4,770</b>	<b>503</b>	<b>(4,072)</b>	<b>-</b>
<b>Cumulative commission rate sensitivity gap</b>		<b>(3,372)</b>	<b>(1,201)</b>	<b>3,569</b>	<b>4,072</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, 2003 and 2002

### 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>2003</b>						
<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 to 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>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 29. Liquidity risk – continued

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

<u>2002</u>	(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	-	-	-	-	408	408
Due from banks and other financial institutions	2,817	1,007	-	-	-	3,824
Investments	440	1,500	2,777	1,278	459	6,454
Loans and advances, net	2,078	2,558	2,999	1,256	-	8,891
Fixed assets, net	-	-	-	-	76	76
Other assets	-	-	-	-	304	304
<b>Total assets</b>	<b>5,335</b>	<b>5,065</b>	<b>5,776</b>	<b>2,534</b>	<b>1,247</b>	<b>19,957</b>
<b>Liabilities and shareholders' equity</b>						
Due from banks and other financial institutions	2,574	350	-	-	-	2,924
Customers' deposits	8,801	2,806	-	-	2,458	14,065
Other liabilities	-	-	-	-	808	808
Shareholders' equity	-	-	-	-	2,160	2,160
<b>Total liabilities and shareholders' equity</b>	<b>11,375</b>	<b>3,156</b>	<b>-</b>	<b>-</b>	<b>5,426</b>	<b>19,957</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, 2003 and 2002

### 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 arms-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:

	2003 SAR'000	2002 SAR'000
<b>Foreign shareholders:</b>		
Due from banks and other financial institutions	2,441	9,307
Due to banks and other financial institutions	6,691	505
Commitments and contingencies	103,065	457,872
<b>Associates:</b>		
Loans and advances	34,500	25,000
Customers' deposits	13,034	20,915
Commitments and contingencies	10,500	
<b>Directors, other major shareholders and their affiliates:</b>		
Due from banks and other financial institutions	400,000	1,045,500
Due to banks and other financial institutions	1,881,025	927,254
Loans and advances	83,607	87,135
Customers' deposits	2,320,858	2,502,524
Commitments and contingencies	414,636	544,719
<b>Mutual fund:</b>		
Customers' deposits	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:

	2003 SAR'000	2002 SAR'000
Special commission income	20,463	16,570
Special commission expense	95,729	106,076
Fees from banking services	7,206	-
Directors' remuneration	1,456	1,316

# THE SAUDI INVESTMENT BANK

## NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2003 and 2002

### 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.

	2003		2002	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Tier 1	2,708,308	21%	2,159,987	19%
Tier 1 + Tier 2	3,333,626	26%	2,680,313	24%

### Risk weighted assets

	2003			2002		
	SAR'000			SAR '000		
	Carrying value/ notional	Credit equivalent	Risk weighted assets	Carrying value/ notional	Credit equivalent	Risk weighted assets
<b><u>Balance sheet assets</u></b>						
0%	3,566,140	3,566,140	-	3,051,376	3,051,376	-
20%	7,582,693	7,582,693	1,516,539	7,912,731	7,912,731	1,582,546
100%	10,559,486	10,559,486	10,559,486	8,992,567	8,992,567	8,992,567
<b>Total</b>	<b>21,708,319</b>	<b>21,708,319</b>	<b>12,076,025</b>	<b>19,956,674</b>	<b>19,956,674</b>	<b>10,575,113</b>
<b><u>Commitments and contingencies</u></b>						
0%	914,919	432,064	-	1,015,586	498,506	-
20%	359,859	179,930	35,986	407,462	202,233	40,447
100%	1,637,221	793,451	793,451	1,591,551	565,920	565,920
<b>Total</b>	<b>2,911,999</b>	<b>1,405,445</b>	<b>829,437</b>	<b>3,014,599</b>	<b>1,266,659</b>	<b>606,367</b>
<b><u>Derivatives</u></b>						
0%	579,055	11,581	-	126,666	2,534	-
20%	255,115	5,102	1,020	275,690	5,514	1,103
50%	1,407,500	18,814	9,407	3,024,660	29,197	14,599
<b>Total</b>	<b>2,241,670</b>	<b>35,497</b>	<b>10,427</b>	<b>3,427,016</b>	<b>37,245</b>	<b>15,702</b>
<b>Total</b>	<b>26,861,988</b>	<b>23,149,261</b>	<b>12,915,889</b>	<b>26,398,289</b>	<b>21,260,578</b>	<b>11,197,182</b>



## **THE SAUDI INVESTMENT BANK**

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

**For the years ended December 31, 2003 and 2002**

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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 Dulqada 25, 1424H corresponding to January 17, 2004.