

# Treasury Products & Services



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# Treasury Products & Services

In today's fast paced international markets, financial risk management can often mean the difference between profit or loss for individuals and companies of all sizes. This risk can take many forms including those arising from foreign exchange, interest rates, balance sheet positions, or investment portfolios. Often this risk is not immediately evident. The Saudi Investment Bank (SAIB) is available to assist clients in identifying sources of potential risk and in providing cost effective solutions to these risk positions.

SAIB has a professionally staffed Treasury Department that operates in all major worldwide money centers. The Treasury Department operates locally from 8 AM to 8 PM and provides full twenty-four hour coverage of risk positions through SAIB's international correspondent network.

As part of our risk management services, SAIB offers the following generic Treasury products.

## Money Market

SAIB offers a full range of call and fixed time deposits at competitive rates. Deposits can be structured to meet the individual cash flow and cash management needs of our customers.

## Foreign Exchange

All major international and local Gulf currencies are readily available at competitive pricing. The Bank also makes a market in less frequently traded currencies. Transactions may be undertaken in the spot, forward, and swap markets with tenors up to one year.

Foreign exchange hedging positions will be structured for clients with forward exposures resulting from trade or capital investment positions.

## Currency Options

These instruments are used for hedging purposes in order to manage existing or potential foreign currency cash flows. Unlike spot or forward foreign exchange contracts, an option contract conveys the right rather than the obligation to make or take delivery of foreign exchange. This additional flexibility has resulted in the increasing popularity of options to control foreign exchange exposures.

## Interest Rate Swaps

These are agreements between two parties to exchange future cash flows on a notional principal amount of the same currency. The cash flows are usually based on a fixed rate payment for one party and a floating rate payment for the other party. Interest Rate Swaps are useful in protecting balance sheets and investment portfolios from adverse fluctuations in interest rates. Swaps can be tailored to meet individual needs and are readily available in maturities out to five years.

## Swaptions

This is an option to enter into an interest rate swap. All conditions are the same as an interest rate swap except that the swaption buyer, in return for the payment of an up-front premium, has the right but not the obligation to enter into an interest rate swap.



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## Forward Rate Agreements

These are contract in which two parties agree to fix an interest rate for a specific future period, for example a six-month loan rate to be drawn down in three months. These instruments are usually used to protect positions from short-term interest rate risk. Maturities are readily available out to two years.

## Interest Rate Caps

A Cap is an option agreement between the seller of the Cap and the buyer that on predetermined future rate reset dates, if an agreed upon index rate is above an agreed upon strike rate, the seller will pay the purchaser the interest differential on the notional principal amount. The buyer of the Cap is thereby guaranteed that he will not have to pay above an agreed upon rate for an agreed upon period.

## Interest Rate Floors

A Floor is an option agreement between the seller of the Floor and the purchaser stating that on predetermined rate reset dates, if an agreed upon index rate is below the strike rate, the seller will pay the purchaser the interest differential on the notional principal amount. The buyer of the Floor is thereby assured that he will not receive below an agreed upon rate for an agreed upon period.

## Interest Rate Collars

A Collar is a combination of a Cap and a Floor whereby one option is purchased and the other is sold. The premium received from the sale of one option offsets the cost of the option purchased. This strategy provides less protection than the outright purchase of either a Cap or Floor, but at a lower cost.

## Government Development Bonds

GDBs are Saudi Riyal denominated securities issued by the Saudi Arabian Monetary Agency on behalf of the Ministry of Finance. The bonds are issued in book entry form. Earnings and principal are repaid by SAMA on the relevant dates.

The bonds have maturities of 2, 5 and 10 years and pay competitive rates. GDBs represent attractive longer term investment opportunities for investors.

## Treasury Bills

Similar to GDBs, Treasury Bills are short-term Saudi Riyal denominated securities by the Saudi Arabian Monetary Agency on behalf of the Ministry of Finance. The bonds are issued at a discount in book entry form. The full principal amount is repaid by SAMA at maturity.

Treasury Bills have maturities of 1, 4, 13, 26, and 52 weeks and represent attractive short-term investments.

SAIB Treasury is available to discuss all of these products in order to provide clients with a range of structured solutions that will enhance returns from their businesses. SAIB will also provide customers with advice on managing their financial exposures as well as provide training and guidance on these new financial instruments.



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