

THE SAUDI INVESTMENT BANK

BALANCE SHEET

As at December 31, 2006 and 2005

	Notes	2006 SAR'000	2005 SAR'000
ASSETS			
Cash and balances with SAMA	3	861,231	971,733
Due from banks and other financial institutions	4	6,299,186	6,797,725
Investments, net	5	11,776,859	11,276,185
Loans and advances, net	6	20,691,271	19,793,644
Property and equipment, net	7	340,377	204,610
Other assets	8	875,699	536,827
Total assets		40,844,623	39,580,724
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	4,447,019	3,990,691
Customers' deposits	11	27,930,969	27,858,060
Other liabilities	12	1,040,318	1,000,262
Term loan	13	1,425,000	1,425,000
Total liabilities		34,843,306	34,274,013
Shareholders' equity			
Share capital	14	2,406,250	1,718,750
Statutory reserve	15	1,952,000	1,450,000
General reserve	15	-	687,500
Other reserves		137,256	1,318,970
Retained earnings		1,505,811	1,553
Proposed dividend	22	-	129,938
Total shareholders' equity		6,001,317	5,306,711
Total liabilities and shareholders' equity		40,844,623	39,580,724

The accompanying notes 1 to 36 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

STATEMENT OF INCOME

For the years ended December 31, 2006 and 2005

	Notes	2006 SAR'000	2005 SAR'000
Special commission income	17	2,505,327	1,745,973
Special commission expense	17	1,474,844	960,229
Net special commission income		1,030,483	785,744
Fees from banking services, net	18	783,929	655,714
Exchange income, net		34,822	27,440
Dividend income	19	34,393	21,763
Gains on non-trading investments, net	20	672,639	25,353
Total operating income		2,556,266	1,516,014
Salaries and employee-related expenses		259,275	223,985
Rent and premises-related expenses		41,625	33,578
Depreciation and amortization	7	31,441	23,921
Other general and administrative expenses		121,164	70,310
Provision for credit losses	6(b)	96,503	100,000
Total operating expenses		550,008	451,794
Net income for the year		2,006,258	1,064,220
Basic and diluted earnings per share (expressed in SAR per share)	21	8.34	4.42

The accompanying notes 1 to 36 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2006 and 2005

		Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
<u>2006</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>	<u>SAR'000</u>
Balance at the beginning								
of the year		1,718,750	1,450,000	687,500	1,318,970	1,553	129,938	5,306,711
Net changes in fair value of available								
for sale investments		-	-	-	(509,140)	-	-	(509,140)
Transfer to statement of income		-	-	-	(672,574)	-	-	(672,574)
Net loss recognized								
directly in equity		-	-	-	(1,181,714)	-	-	(1,181,714)
Net income for the year		-	-	-	-	2,006,258	-	2,006,258
Total recognized (expense)								
and income for the year		-	-	-	(1,181,714)	2,006,258	-	824,544
Bonus share issue	14	687,500	-	(687,500)	-	-	-	-
Transfer to statutory reserve	15	-	502,000	-	-	(502,000)	-	-
2005 final dividend paid	22	-	-	-	-	-	(129,938)	(129,938)
Balance at end of the year		2,406,250	1,952,000	-	137,256	1,505,811	-	6,001,317
<u>2005</u>								
Balance at the beginning								
of the year		1,375,000	1,184,000	362,750	585,026	2,659	97,350	3,606,785
Net changes in fair value of available								
for sale investments		-	-	-	733,944	-	-	733,944
Transfer to statement of income		-	-	-	-	(888)	-	(888)
Net income (loss) recognized								
directly in equity		-	-	-	733,944	(888)	-	733,056
Net income for the year		-	-	-	-	1,064,220	-	1,064,220
Total recognized income								
for the year		-	-	-	733,944	1,063,332	-	1,797,276
Bonus share issue	14	343,750	-	(343,750)	-	-	-	-
Transfer to statutory reserve	15	-	266,000	-	-	(266,000)	-	-
Transfer to general reserve		-	-	668,500	-	(668,500)	-	-
2004 final dividend paid	22	-	-	-	-	-	(97,350)	(97,350)
2005 final proposed dividend	22	-	-	-	-	(129,938)	129,938	-
Balance at end of the year		1,718,750	1,450,000	687,500	1,318,970	1,553	129,938	5,306,711

The accompanying notes 1 to 36 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

STATEMENT OF CASH FLOWS

For the years ended December 31, 2006 and 2005

	Notes	2006 SAR'000	2005 SAR'000
OPERATING ACTIVITIES			
Net income for the year		2,006,258	1,064,220
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Accretion of discounts on non-trading investments, net		(131,859)	(160,463)
Gains on non-trading investments, net		(672,639)	(25,353)
Depreciation and amortization		31,441	23,921
Provision for credit losses		96,503	100,000
		1,329,704	1,002,325
Net increase in operating assets:			
Statutory deposit with SAMA	3	(2,344)	(58,274)
Due from banks and other financial institutions maturing after ninety days from date of acquisition		(646,550)	(79,250)
Loans and advances		(994,130)	(6,862,547)
Other assets		(338,872)	(244,725)
Net increase in operating liabilities:			
Due to banks and other financial institutions		456,328	19,699
Customers' deposits		72,909	7,573,134
Other liabilities		40,056	319,463
Net cash (used in) from operating activities		(82,899)	1,669,825
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		5,972,781	3,603,221
Purchase of non-trading investments		(6,850,671)	(5,458,877)
Purchase of property and equipment		(191,913)	(83,727)
Proceeds from sale of property and equipment		24,705	-
Net cash used in investing activities		(1,045,098)	(1,939,383)
FINANCING ACTIVITIES			
Term loan		-	1,425,000
Dividends paid		(129,938)	(97,350)
Net cash (used in) from financing activities		(129,938)	1,327,650
(Decrease) increase in cash and cash equivalents		(1,257,935)	1,058,092
Cash and cash equivalents at beginning of the year		7,171,301	6,113,209
Cash and cash equivalents at end of the year	23	5,913,366	7,171,301
Special commission received during the year		2,290,743	1,603,946
Special commission paid during the year		1,368,402	825,328
Supplemental non-cash information			
Net changes in fair value and transfers to statement of income		(1,181,714)	733,056
Bonus shares issued from general reserve		687,500	343,750
Final proposed dividend		-	129,938

The accompanying notes 1 to 36 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

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 23 branches (2005: 16 branches) in the Kingdom of Saudi Arabia, and employing 816 employees (2005: 700 employees). The address of the Bank's Head Office is as follows:

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

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers non-interest based banking products which are approved and supervised by an independent Shariah Board established by the Bank.

2. Summary of significant accounting policies

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

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

a) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS). The Bank also prepares its financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets and liabilities held at Fair value through income statement (FVIS) and as available for sale. In addition, assets or liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

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

b) Change in accounting policy

The Bank adopted the amendments to International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement - The Fair Value Option - effective January 1, 2006 with retrospective effect, wherever applicable. As a result of this amendment, the revised IAS 39 requires that the use of the FVIS designation be restricted and shall be used only if permitted by the IAS. There was no impact on opening retained earnings from the adoption of the revised IAS 39.

c) Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows for a portfolio of loans and advances before the decrease can be identified with an individual loan in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with default on assets in the portfolio. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available-for-sale equity investments

The Bank exercises judgement in considering impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

d) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power or over which it exercises significant influence, but not control.

e) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. The Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales, are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

f) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, commission rate swaps and currency options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and valuation techniques including 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 statement of income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be a highly effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying amount, for which the effective interest rate method is used, is amortized to the statement of income over the remaining life of the instrument.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation.

g) Foreign currencies

The financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the statement of income or in equity depending on the underlying financial asset.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

h) 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.

i) Revenue recognition

Special commission income and expense including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statement of income on the effective yield basis and include premiums amortized and discounts accreted during the year. Exchange income is recognized when earned.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided.

Dividend income is recognized when declared.

j) 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 investments held as available for sale and held to maturity. 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.

k) Investments

All investment securities are initially recognized at fair value, including acquisition charges associated with the investment. 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 initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

(i) Available for sale

Investments which are classified as “available for sale” are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in “Other reserves” under Shareholders’ equity. On derecognition, any cumulative gain or loss previously recognized in shareholders’ equity is included in the statement of income for the period.

Equity investments classified under available-for-sale investments, for which there is no active market and whose fair value cannot be reliably measured using a valuation technique, are carried at cost.

(ii) Held to maturity

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

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank’s ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

(iii) Other investments held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as “Other investments held at amortized cost”. Such investments whose fair values have not been hedged 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.

l) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

All loans and advances are initially recognized at fair value, including acquisition charges associated with the loans and advances.

Following the initial recognition, the subsequent period-end reporting values for loans and advances originated by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost less any amount written off and any provisions for impairment.

For presentation purposes, provision for credit losses is deducted from loans and advances.

m) 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, 2006 and 2005

2. Summary of significant accounting policies – continued

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

(i) Impairment of financial assets held at amortized cost

A financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected future cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective commission rate.

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

For financial assets at amortised 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.

(ii) Impairment of financial assets held at fair value

For financial assets at fair value, where a loss has been recognised directly under shareholders' equity as a result of the write-down of the asset to the current fair value, the cumulative net loss recognised in shareholders' equity is transferred to the statement of income when the asset is considered to be impaired.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through Statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income for the period.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

n) 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 are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell.

Subsequent to the initial recognition, such real estate are revalued on a periodic basis. Any unrealized losses on revaluation, realized losses or gains on disposal and rental income are recognized in the statement of income.

o) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other property and equipment 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 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to 10 years

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

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

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

p) Liabilities

All money market deposits, customer deposits, term loans and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently, all commission-bearing financial liabilities, other than these where fair values have been hedged are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and the discounts are accreted on an effective yield basis to maturity and are taken to special commission income or expense.

q) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

r) Accounting for leases

Leases entered into by the Bank as a lessee, are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

s) 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 and balances with SAMA, excluding statutory deposit and due from banks and other financial institutions with original maturities of ninety days or less, from the date of acquisition.

t) Derecognition of financial instruments

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

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

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

u) Zakat and income taxes

Zakat is computed on the Saudi shareholders' share of equity or net income, using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders' share of net income for the year.

Zakat and income taxes are not charged to the Bank's statement of income as they are deducted from the dividends paid to the shareholders.

v) Investment management services

The Bank offers investment services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in 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.

w) Non-commission based banking products

In addition to the conventional banking, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board.

All non-commission based banking products are accounted for using IFRS and are in conformity with the accounting policies described in these financial statements.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

2. Summary of significant accounting policies – continued

x) Financial liabilities

All money market deposits, customers' deposits, term loan and other debt securities in issue are initially recognized at fair value of the consideration received. Subsequently, all commission-bearing financial liabilities, other than those where fair values have been hedged, if any, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission income or expense.

3. Cash and balances with SAMA

	2006 SAR'000	2005 SAR'000
Cash in hand	339,980	452,826
Statutory deposit	521,251	518,907
Total	861,231	971,733

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

	2006 SAR'000	2005 SAR'000
Current accounts	261,280	223,188
Money market placements	6,037,906	6,574,537
Total	6,299,186	6,797,725

5. Investments, net

a) Investments are classified as follows:

i) Available for sale

	Domestic		International		Total	
	2006 SAR'000	2005 SAR'000	2006 SAR'000	2005 SAR'000	2006 SAR'000	2005 SAR'000
Fixed rate securities	3,482,819	2,790,673	482,003	327,674	3,964,822	3,118,347
Floating rate notes	3,530,923	3,151,351	3,012,644	2,062,169	6,543,567	5,213,520
Equities	655,473	1,404,818	30,781	103,573	686,254	1,508,391
Mutual funds	219,116	880,840	49,322	44,151	268,438	924,991
Total	7,888,331	8,227,682	3,574,750	2,537,567	11,463,081	10,765,249

The domestic fixed rate securities and floating rate notes above include receivable securitization agreements amounting to SR 2,799 million (2005: SR 2,109 million) entered into by the bank. Upon initial recognition, these items were designated as available for sale. Their fair values are determined by using an appropriate pricing model.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

5. Investments, net – continued

ii) Held to maturity

	Domestic		International		Total	
	2006	2005	2006	2005	2006	2005
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	-	350,212	-	-	-	350,212

iii) Investment in associates

	Domestic		International		Total	
	2006	2005	2006	2005	2006	2005
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Total investment in associates	313,778	160,724	-	-	313,778	160,724
Investments, net	8,202,109	8,738,618	3,574,750	2,537,567	11,776,859	11,276,185

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

	2006			2005		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	482,003	3,482,819	3,964,822	327,674	3,140,885	3,468,559
Floating rate notes	3,012,644	3,530,923	6,543,567	2,062,169	3,151,351	5,213,520
Equities	683,754	2,500	686,254	1,505,891	2,500	1,508,391
Mutual funds	268,438	-	268,438	924,991	-	924,991
Investment in associates	-	313,778	313,778	-	160,724	160,724
Investments, net	4,446,839	7,330,020	11,776,859	4,820,725	6,455,460	11,276,185

The unquoted securities above principally comprise receivable securitization agreements and Saudi Government Development Bonds (SGDBs). Receivable securitization agreements' fair values are determined by using an appropriate pricing model. The SGDBs are traded in the inter-bank market within the Kingdom of Saudi Arabia and their values are determined according to such market when available or an appropriate pricing model.

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%
Amlak International (under incorporation)	29%
Medgulf – KSA	19%

Investments include SAR 5,773 million (2005: SAR 5,078 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 5,743 million (2005: SAR 5,117 million).

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

5. Investments, net – continued

- c) The analysis of unrealized gains and losses and the fair values of held to maturity investments, are as follows:

Held to maturity

	2006				2005			
	Gross			Fair value	Gross			Fair value
	Carrying value	Unrealized			Carrying value	Unrealized		
		Gain	Loss			Gain	Loss	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	
Fixed rate securities	-	-	-	-	350,212	-	1,775	348,437

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

	2006 SAR'000	2005 SAR'000
Government and quasi-Government	3,531,364	3,526,221
Corporate	8,245,495	7,749,964
Total	11,776,859	11,276,185

6. Loans and advances, net

- a) Loans and advances, held at amortized cost

These are comprised of the following:

	2006 SAR'000	2005 SAR'000
Performing		
Commercial loans	15,171,396	12,306,327
Overdrafts	4,212,873	5,960,286
Consumer loans	1,842,920	2,000,530
Other	24,054	25,656
Performing loans and advances, gross	21,251,243	20,292,799
Non-performing loans and advances, net	217,310	189,050
	21,468,553	20,481,849
Provision for credit losses	(777,282)	(688,205)
Loans and advances, net	20,691,271	19,793,644

Loans and advances, net include non-commission based banking products in respect of Murabaha agreements and Istisna'a which are stated at cost less provision for credit losses, of SAR 3,870 million (2005: SAR 4,248 million).

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

6. Loans and advances, net – continued

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

	2006 SAR'000	2005 SAR'000
Balance at beginning of the year	688,205	595,958
Provided during the year	96,503	100,000
Bad debts written off, net of recoveries	(7,426)	(7,753)
Balance at end of the year	777,282	688,205

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

2006	Performing SAR'000	Non performing, net SAR'000	Provision for credit losses SAR'000	Loans and advances, net SAR'000
Government and quasi-Government	130,094	-	-	130,094
Banks and other financial institutions	1,401,442	-	-	1,401,442
Agriculture and fishing	128,233	-	(1,282)	126,951
Manufacturing	1,898,663	35,575	(111,321)	1,822,917
Electricity, water, gas and health services	90,240	-	(902)	89,338
Building and construction	4,520,881	250	(45,933)	4,475,198
Commerce	5,638,891	149,976	(456,147)	5,332,720
Transportation and communication	95,756	5,015	(14,863)	85,908
Services	1,462,852	17,528	(84,355)	1,396,025
Consumer loans	1,833,975	8,945	(21,348)	1,821,572
Other	4,050,216	21	(41,131)	4,009,106
Total	21,251,243	217,310	(777,282)	20,691,271

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

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

7. Property and equipment, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2006 SAR'000	Total 2005 SAR'000
Cost					
Balance at beginning of the year	150,317	25,558	165,249	341,124	257,979
Additions	141,694	1,602	52,691	195,987	83,730
Disposals	(30,668)	-	(4,165)	(34,833)	(585)
Balance at end of the year	261,343	27,160	213,775	502,278	341,124
Accumulated depreciation					
Balance at beginning of the year	8,978	16,050	111,486	136,514	113,175
Charge for the year	4,413	3,164	23,864	31,441	23,921
Disposals	(2,159)	-	(3,895)	(6,054)	(582)
Balance at end of the year	11,232	19,214	131,455	161,901	136,514
Net book value					
As at December 31, 2006	250,111	7,946	82,320	340,377	
As at December 31, 2005	141,339	9,508	53,763		204,610

8. Other assets

	2006 SAR'000	2005 SAR'000
Accrued commission receivable		
– Banks and other financial institutions	34,470	25,800
– Investments	68,079	43,423
– Loans and advances	358,585	177,122
– Other	16,682	16,887
Total accrued commission receivable	477,816	263,232
Accounts receivable	112,981	109,445
Positive fair value of derivatives (note 9)	77,255	4,166
Other real estate	35,124	35,124
Other	172,523	124,860
Total	875,699	536,827

9. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

9. Derivatives – continued

b) Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over the counter market.

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.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS - continued

For the years ended December 31, 2006 and 2005

9. Derivatives – continued

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

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
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2006								
Held for trading:								
Forward foreign exchange contracts	74,359	73,765	5,643,443	4,747,616	826,131	69,696	-	7,629,636
Currency options	-	-	-	-	-	-	-	55,645
Held as fair value hedges:								
Commission rates swaps	2,896	-	247,500	-	-	-	247,500	136,125
Total	77,255	73,765	5,890,943	4,747,616	826,131	69,696	247,500	7,821,406

	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
2005								
Held for trading:								
Commission rates swaps	2,712	-	311,200	-	311,200	-	-	311,200
Forward foreign exchange contracts	1,356	102	4,928,838	3,188,149	1,740,315	-	374	3,906,362
Currency options	98	-	37,500	-	37,500	-	-	391,462
Total	4,166	102	5,277,538	3,188,149	2,089,015	-	374	4,609,024

Approximately 97% (2005: 99%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 78% (2005: 65%) 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

	2006	2005
	SAR'000	SAR'000
Current accounts	305,956	10,906
Money market deposits	4,141,063	3,979,785
Total	4,447,019	3,990,691

Money market deposits include deposits against sale of fixed rate bonds of SAR 2,034 million (2005: SAR 1,184 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, 2006 and 2005

11. Customers' deposits

	2006 SAR'000	2005 SAR'000
Demand	3,707,521	1,961,344
Saving	2,627,467	2,459,736
Time	16,397,460	19,067,568
Other	5,198,521	4,369,412
Total	27,930,969	27,858,060

Time deposits include deposits against sale of securities of SAR 457 million (2005: SAR 2,497 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 108 million (2005: SAR 94 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2006 SAR'000	2005 SAR'000
Demand	258,276	221,525
Savings	235,906	247,870
Time	2,260,873	4,185,906
Other	770,064	168,122
Total	3,525,119	4,823,423

12. Other liabilities

	2006 SAR'000	2005 SAR'000
Accrued commission payable		
– Banks and other financial institutions	91,013	53,869
– Customers' deposits	262,333	180,125
– Term loan	12,345	25,255
Total accrued commission payable	365,691	259,249
Negative fair value of derivatives (note 9)	73,765	102
Other	600,862	740,911
Total	1,040,318	1,000,262

13. Term Loan

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

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 240.6 million shares (2005: 171.9 million shares) at SAR 10 each (2005: 34.4 million shares at SR 50 each).

In accordance with the Capital Market Authority's announcement dated March 27, 2006, the shares of the Bank were split into five shares for every one share effective April 8, 2006. Accordingly, the number of shares of the Bank have increased from 34.4 million ordinary shares of SR 50 each to 240.6 million ordinary shares of SR 10 each.

The ownership of the Bank's share capital is as follows:

	2006	2005
	SAR'000	SAR'000
Saudi shareholders	2,165,625	1,546,875
Foreign shareholders:		
J.P. Morgan International Finance Limited	180,468	128,906
Mizuho Corporate Bank Limited	60,157	42,969
	<u>2,406,250</u>	<u>1,718,750</u>

The Board of Directors proposed a bonus share issue of 13,750,000 share of SAR 50 each which was approved in the shareholders' extraordinary general assembly meeting held on Safar 6, 1427H (corresponding to March 6, 2006G). Accordingly, the total number of issued and outstanding shares increased to 48,125,000.

During the year ended December 31, 2006, the share capital increased from SR 1,719 million to SR 2,406 million, through a transfer from general reserve.

15. Statutory and general reserves

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 502 million has been transferred from 2006 net income (2005: SAR 266 million). The statutory reserve is not available for distribution.

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

16 Commitments and contingencies

a) Legal proceedings

As at December 31, 2006 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is unlikely that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome.

b) Capital commitments

As at December 31, 2006, the Bank had capital commitments of SAR 79.6 million (2005: SAR 69.4 million) in respect of construction for the new branches and building expansion of its head office.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

16. Commitment and contingencies – continued

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. 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.

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.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The maturity structure for the Bank's commitments and contingencies are as follows:

	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
<u>2006</u>					
Letters of credit	687,403	142,701	20,418	-	850,522
Letters of guarantee	511,875	1,067,780	522,259	1,680	2,103,594
Acceptances	278,634	250,693	1,159	-	530,486
Irrevocable commitments to extend credit	-	-	20,870	176,774	197,644
Total	1,477,912	1,461,174	564,706	178,454	3,682,246
	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
<u>2005</u>					
Letters of credit	318,567	243,200	68,637	-	630,404
Letters of guarantee	1,255,589	866,871	307,454	1,724	2,431,638
Acceptances	186,328	121,337	4,563	-	312,228
Irrevocable commitments to extend credit	-	-	4,787	89,239	94,026
Total	1,760,484	1,231,408	385,441	90,963	3,468,296

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

16. Commitment and contingencies – continued

The outstanding unused portion of commitments as at December 31, 2006 which can be revoked unilaterally at any time by the Bank, amounts to SAR 10,349 million (2005: SAR 5,754 million).

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

	2006 SAR'000	2005 SAR'000
Government and quasi-Government	1,406,084	1,545,332
Corporate	1,964,536	1,465,558
Banks and other financial institutions	218,649	454,893
Other	92,977	2,513
Total	3,682,246	3,468,296

d) Assets pledged

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

	2006		2005	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Available for sale investments	2,061,389	2,034,398	1,193,031	1,352,382

e) Operating lease commitments

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

	2006 SAR'000	2005 SAR'000
Less than 1 year	18,329	15,695
1 to 5 years	57,043	50,661
Over 5 years	60,852	52,755
Total	136,224	119,111

17. Net special commission income

	2006 SAR'000	2005 SAR'000
Special commission income		
Investments		
– Available for sale	462,427	330,196
– Other investment held at amortized cost	-	29,133
– Held to maturity	10,089	19,501
	472,516	378,830
Due from banks and other financial institutions	383,312	210,261
Loans and advances	1,649,499	1,156,882
Total	2,505,327	1,745,973

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

17. Net special commission income – continued

	2006 SAR'000	2005 SAR'000
Special commission expense		
Due to banks and other financial institutions	216,507	143,559
Customers' deposits	915,180	684,787
Term loan	78,160	31,044
Other	264,997	100,839
Total	1,474,844	960,229

18. Fees from banking services, net

	2006 SAR'000	2005 SAR'000
Fee income:		
- Share trading and fund management	831,300	727,378
- Trade finance	33,399	28,019
- Corporate finance and advisory	67,366	39,713
- Other banking services	20,216	22,902
Total fee income	952,281	818,012
Fee expense:		
- Custodial services	167,659	161,513
- Other banking services	693	785
Total fee expense	168,352	162,298
Fees from banking services, net	783,929	655,714

19. Dividend income

	2006 SAR'000	2005 SAR'000
Investments		
- Available for sale	30,055	20,354
- Other	4,338	1,409
Total	34,393	21,763

20. Gains on non-trading investments, net

	2006 SAR'000	2005 SAR'000
Available for sale	672,639	25,353

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

21. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2006 and 2005 is calculated by dividing the net income for the year attributable to the equity holders by 240.6 million shares to give a retroactive effect of change in the number of shares increased as a result of the share split on April 8, 2006 (see note 14).

Basic and diluted earnings per share for last year has been adjusted to reflect the issuance of bonus shares or stock dividends during 2006.

22. Proposed gross dividend, zakat and income tax

The Board of Directors has not proposed any gross dividend for the year 2006 (2005: SAR 129.9 million). The 2005 dividend was 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 45.2 million (2005: SAR 23.9 million). The 2006 zakat will be paid by the Bank on behalf of the Saudi shareholders and will be collected subsequently from future dividend. The 2005 zakat has been deducted from their share of dividend, which resulted to a net dividend to Saudi shareholders of SAR 3 per share.

b) Foreign shareholders:

Income tax payable on the current year's share of income is approximately SAR 41 million (2005: SAR 22 million).

23. Cash and cash equivalents

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

	2006 SAR'000	2005 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 3)	339,980	452,826
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	5,573,386	6,718,475
Total	5,913,366	7,171,301

24. Business segments

The Bank's primary segment reporting format is determined to be business segment. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are distinct from those of other businesses segment.

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

For management purposes the Bank is organized into the following major business segments:

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

24. Business segments – continued

Retail banking

Deposit, credit and investment products for individuals, small to medium sized businesses.

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. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on interbank rates.

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

During the year, the Bank has extinguished its rights to any share in the profits of the Unit until a pre-agreed amount of the profits from the effective date of the Agreement are allocated to the portfolio managers. Accordingly, no income from the Unit's operations has been recognized since the commencement of the Agreement.

During 2006, the Bank's share of the net income of the Unit which was allocated to the portfolio managers amounted to SAR 32.3 million (2005: SAR 80.1 million). The Bank's share of the assets and liabilities of the Unit at December 31, 2006 and 2005 were not significant.

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, 2006 and 2005, and its total operating income, expenses and net income for the years then ended, by business segments, are as follows:

	(SAR in million)			
<u>2006</u>	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Total assets	11,639	10,950	18,256	40,845
Total liabilities	10,267	17,456	7,120	34,843
Total operating income	1,166	399	991	2,556
Total operating expenses	250	179	121	550
Net income	916	220	870	2,006

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

24. Business segments – continued

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

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

	(SAR in million)			
<u>2006</u>	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and capital markets</u>	<u>Total</u>
Balance sheet assets	11,639	10,950	18,256	40,845
Commitments and contingencies	713	935	104	1,752
Derivatives	-	-	110	110

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

Credit exposure comprises the carrying value of balance sheet assets excluding cash, property and equipment, other real estate, other assets. The credit equivalent value of commitments, contingencies and derivatives included in credit exposure.

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, 2006 and 2005

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 uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains six classification grades that differentiate between performing and non-performing portfolios and allocates portfolio provisions and specific provisions, respectively. The Bank determines each individual borrower's grade based on specific criteria. However, overall objective judgment of borrower's character, activity, cash flows, capital structure, security and quality of management is exercised when rating borrowers. The Bank conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established within the Bank for the purpose.

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	
2006							
Assets							
Cash and balances with SAMA	856	-	2	3	-	-	861
Due from banks and other financial institutions	4,358	1,255	448	210	-	28	6,299
Investments, net	8,202	-	-	3,575	-	-	11,777
Loans and advances, net	20,457	159	-	-	72	4	20,692
Total	33,873	1,414	450	3,788	72	32	39,629
Liabilities							
Due to banks and other financial institutions	1,387	571	170	2,318	1	-	4,447
Customers' deposits	27,931	-	-	-	-	-	27,931
Term loan	168	525	694	-	38	-	1,425
Total	29,486	1,096	864	2,318	39	-	33,803
Commitments and contingencies	2,528	220	196	488	242	8	3,682
Credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	1,132	43	86	441	48	2	1,752
Derivatives	53	14	25	18	-	-	110

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

26. Geographical concentration – continued

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

Credit equivalent amounts reflect the amounts that result from translating Bank's off-balance sheet liabilities into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment.

Balances shown in "Due from banks and other financial institutions" and "Due to banks and other financial institutions" as at December 31, 2006 and 2005 under the Kingdom of Saudi Arabia do not include money market placements and deposits on account of foreign branches of local banks.

- b) The geographical concentration of non-performing loans and advances and provision for credit losses as at December 31, 2006 and 2005 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. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2006 SAR'000 Long (short)	2005 SAR'000 Long (short)
US Dollar	1,086,971	(2,275,025)
Euro	8,295	6,709
Pound Sterling	2,348	1,728
Other	13,982	229,910

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

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.

	(SAR in million)						
	2006	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Effective commission rate
Assets						Total	
Cash and balances with SAMA		-	-	-	-	861	-
Due from banks and other financial institutions		5,312	186	521	19	261	5.07%
Investments, net		7,383	1,608	1,023	-	1,763	5.06%
Loans and advances, net		10,334	5,006	4,958	394	-	8.54%
Property and equipment, net		-	-	-	-	340	-
Other assets		-	-	-	-	876	-
Total assets		23,029	6,800	6,502	413	4,101	40,845
Liabilities and shareholders' equity							
Due to banks and other financial institutions		3,125	416	600	-	306	5.13%
Customers' deposits		17,144	3,523	404	-	6,860	4.67%
Other liabilities		-	-	-	-	1,040	-
Term loan		-	1,425	-	-	-	5.86%
Shareholders' equity		-	-	-	-	6,002	-
Total liabilities and shareholders' equity		20,269	5,364	1,004	-	14,208	40,845
On balance sheet gap		2,760	1,436	5,498	413	(10,107)	-
Off balance sheet gap		248	(248)	-	-	-	-
Total commission rate sensitivity gap		3,008	1,188	5,498	413	(10,107)	-
Cumulative commission rate sensitivity gap		3,008	4,196	9,694	10,107	-	-

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

28. Commission rate risk – continued

	<u>2005</u>	(SAR in million)					Effective commission rate
		Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
Assets							
Cash and balances with SAMA		-	-	-	-	972	-
Due from banks and other financial institutions		6,495	8	71	-	224	4.92%
Investments, net		6,131	1,335	814	-	2,996	4.03%
Loans and advances, net		9,811	5,469	3,691	823	-	7.15%
Property and equipment, net		-	-	-	-	205	-
Other assets		-	-	-	-	536	-
Total assets		22,437	6,812	4,576	823	4,933	39,581
Liabilities and shareholders' equity							
Due to banks and other financial institutions		2,583	897	500	-	11	4.30%
Customers' deposits		17,592	5,297	32	-	4,937	5.11%
Other liabilities		-	-	-	-	1,000	-
Term loan		-	1,425	-	-	-	4.37%
Shareholders' equity		-	-	-	-	5,307	-
Total liabilities and shareholders' equity		20,175	7,619	532	-	11,255	39,581
On balance sheet gap		2,262	(807)	4,044	823	(6,322)	-
Off balance sheet gap		155	(155)	-	-	-	-
Total commission rate sensitivity gap		2,417	(962)	4,044	823	(6,322)	-
Cumulative commission rate sensitivity gap		2,417	1,455	5,499	6,322	-	-

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 table below summarises the maturity profile of the Bank's assets and liabilities. 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. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

29. Liquidity risk – continued

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 2% of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

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

	(SAR in million)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
2006						
Assets						
Cash and balances with SAMA	-	-	-	-	861	861
Due from banks and other financial institutions	5,312	186	540	-	261	6,299
Investments, net	860	1,320	4,433	3,401	1,763	11,777
Loans and advances, net	10,334	5,006	4,958	394	-	20,692
Property and equipment, net	-	-	-	-	340	340
Other assets	-	-	-	-	876	876
Total assets	16,506	6,512	9,931	3,795	4,101	40,845
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,125	516	500	-	306	4,447
Customers' deposits	17,082	3,565	424	-	6,860	27,931
Other liabilities	-	-	-	-	1,040	1,040
Term loan	-	-	1,425	-	-	1,425
Shareholders' equity	-	-	-	-	6,002	6,002
Total liabilities and shareholders' equity	20,207	4,081	2,349	-	14,208	40,845

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

29. Liquidity risk – continued

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

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

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 held to maturity investments, loans and advances and customers' deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair values of the 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. The fair values of loans and advances held at amortized cost, commission-bearing customers' deposits and the term loan are not significantly different from the carrying values since the current market commission rates for similar financial instruments are not significantly different from the contracted rates. The fair values of due from and due to banks and other financial institutions are not significantly different from the carrying values since the underlying amounts for such financial instruments are for shorter durations which indicates that their carrying rates are not significantly different from the current market rates.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation models. The total amount of the changes in fair value recognized in the statement of income, which was estimated using valuation models, is SAR 1.6 million (2005: SAR 2.8 million).

TH SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

31. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

i) The balances at December 31 resulting from such transactions included in the financial statements are as follows:

	2006 SAR'000	2005 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	147,234	366,640
Due to banks and other financial institutions	299,994	416
Commitments and contingencies	9,726	9,887
Associates:		
Investments, net	-	10,000
Loans and advances, net	424,000	-
Customers' deposits	598,606	9,534
Commitments and contingencies	281,900	62,000
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Due from banks and other financial institutions	80,500	130,000
Due to banks and other financial institutions	-	700,000
Investments, net	2,798,768	2,109,035
Loans and advances, net	812,808	801,939
Customers' deposits	4,317,697	2,947,685
Commitments and contingencies	197,335	695,878
Bank's mutual funds and employees' post-employment benefit plan:		
Investments, net	268,438	924,991
Customers' deposits	14,682	4,450

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

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

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

	2006 SAR'000	2005 SAR'000
Special commission income	210,315	212,309
Special commission expense	118,395	101,233
Fees from banking services, net	95,328	126,119
Directors' remuneration	1,380	1,422

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

31. Related party transactions - continued

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

	2006 SAR'000	2005 SAR'000
Short-term employee benefits	11,191	10,725
Post-employment benefits	1,226	1,175

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 contingencies and notional amount of derivatives at a weighted amount to reflect their relative risk.

	2006		2005	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Tier 1	6,001,317	23%	5,306,711	21%
Tier 1 + Tier 2	6,321,141	25%	5,617,988	23%

Risk weighted assets

	2006 SAR'000			2005 SAR '000		
	Carrying/ notional value	Credit equivalent	Risk weighted assets	Carrying/ notional value	Credit equivalent	Risk weighted assets
<u>Balance sheet assets</u>						
0%	5,023,363	5,023,363	-	4,999,438	4,999,438	-
20%	14,115,561	14,115,561	2,823,112	12,987,645	12,987,645	2,597,529
100%	21,705,699	21,705,699	21,705,699	21,593,641	21,593,641	21,593,641
Total	40,844,623	40,844,623	24,528,811	39,580,724	39,580,724	24,191,170
<u>Commitments and contingencies</u>						
0%	1,511,089	-	-	1,638,118	-	-
20%	218,649	170,104	21,853	548,919	126,081	64,294
100%	1,952,508	1,582,283	997,556	1,281,259	1,528,047	616,761
Total	3,682,246	1,752,387	1,019,409	3,468,296	1,654,128	681,055
<u>Derivatives</u>						
0%	-	-	-	-	-	-
20%	3,287,530	58,326	11,665	3,652,456	68,381	13,676
50%	2,603,413	52,068	26,034	1,625,082	32,502	16,251
Total	5,890,943	110,394	37,699	5,277,538	100,883	29,927
Total	50,417,812	42,707,404	25,585,919	48,326,558	41,335,735	24,902,152

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS – continued

For the years ended December 31, 2006 and 2005

33. Investment management services

The Bank offers investment services to its customers, which include management of investment funds in consultation with professional investment advisors. The financial statements of the funds are not consolidated with these financial statements. However, the Bank's share of the funds, if any, is included under available for sale investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the financial statements.

The Bank also manages private investment portfolios on behalf of customers with managed assets totaling SR 6,370 million (2005: SR 5,408 million) out of which Islamic portfolio totaling of SAR 1,765 million (2005: SAR 2,481 million).

34. Prospective changes in accounting policies

Certain new IFRS and IAS have been published in their final form and are mandatory for compliance for the Bank's accounting year beginning January 1, 2007, which the Bank has opted not to adopt earlier. These include:

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the bank's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the bank's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the bank discloses information about its operating segments.

IFRIC Interpretations

During 2006 IFRIC issued the following interpretations:

- IFRIC Interpretation 8 Scope of IFRS 2
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC Interpretation 11 of IFRS 2 – Group and Treasury Share Transactions

Management do not expect these interpretations to have a significant impact on the bank's financial statements when implemented in 2007.

35. Comparative figures

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

36. Board of Director's approval

The financial statements were approved by the Board of Directors on Dulhajja 28, 1427H corresponding to January 18, 2007.