



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

FINANCIAL STATEMENTS AND AUDITORS' REPORT

December 31, 2007 and 2006

THE SAUDI INVESTMENT BANK

BALANCE SHEET

As at December 31, 2007 and 2006

	<u>Notes</u>	<u>2007 SAR'000</u>	<u>2006 SAR'000</u>
ASSETS			
Cash and balances with SAMA	3	1,212,355	861,231
Due from banks and other financial institutions	4	4,311,421	6,299,186
Investments	5	16,373,407	11,776,859
Loans and advances, net	6	23,128,701	20,691,271
Property and equipment, net	7	424,705	340,377
Other assets	8	1,091,204	875,699
Total assets		<u>46,541,793</u>	<u>40,844,623</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	4,512,101	4,447,019
Customers' deposits	11	32,768,271	27,930,969
Other liabilities	12	1,066,795	1,040,318
Term loan	13	1,425,000	1,425,000
Total liabilities		<u>39,772,167</u>	<u>34,843,306</u>
Shareholders' equity			
Share capital	14	3,910,160	2,406,250
Statutory reserve	15	2,158,000	1,952,000
Other reserves		83,380	137,256
Retained earnings		618,086	1,505,811
Total shareholders' equity		<u>6,769,626</u>	<u>6,001,317</u>
Total liabilities and shareholders' equity		<u>46,541,793</u>	<u>40,844,623</u>

The accompanying notes 1 to 38 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

STATEMENT OF INCOME

For the years ended December 31, 2007 and 2006

	Notes	2007 SAR'000	2006 SAR'000
Special commission income	17	2,605,103	2,505,327
Special commission expense	17	1,549,113	1,474,844
Net special commission income		1,055,990	1,030,483
Fee income from banking services, net	18	398,330	783,929
Exchange income, net		44,439	34,822
Dividend income	19	35,387	34,393
(Losses) gains on non-trading investments, net	20	(131,048)	672,639
Total operating income		1,403,098	2,556,266
Salaries and employee-related expenses		286,937	259,275
Rent and premises-related expenses		41,548	41,625
Depreciation	7	43,612	31,441
Other general and administrative expenses		112,116	121,164
Allowance for credit losses, net	6(b)	96,700	96,503
Total operating expenses		580,913	550,008
Net income for the year		822,185	2,006,258
Basic and diluted earnings per share (expressed in SAR per share)	21	2.10	5.13

The accompanying notes 1 to 38 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2007 and 2006

		Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
	Notes	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2007								
Balance at the beginning								
of the year		2,406,250	1,952,000	-	137,256	1,505,811	-	6,001,317
Net changes in fair value of available								
for sale investments		-	-	-	77,172	-	-	77,172
Transfer to statement of income		-	-	-	(131,048)	-	-	(131,048)
Net loss recognized								
directly in equity		-	-	-	(53,876)	-	-	(53,876)
Net income for the year					-	822,185	-	822,185
Total recognized (expense)								
and income for the year		-	-	-	(53,876)	822,185	-	768,309
Bonus share issue	14	1,503,910	-	-	-	(1,503,910)	-	-
Transfer to statutory reserve	15	-	206,000	-	-	(206,000)	-	-
Balance at the end of the year		3,910,160	2,158,000	-	83,380	618,086	-	6,769,626
2006								
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		687,500	-	(687,500)	-	-	-	-
Transfer to statutory reserve	15	-	502,000	-	-	(502,000)	-	-
2005 final dividend paid		-	-	-	-	-	(129,938)	(129,938)
Balance at end of the year		2,406,250	1,952,000	-	137,256	1,505,811	-	6,001,317

The accompanying notes 1 to 38 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

STATEMENT OF CASH FLOWS

For the years ended December 31, 2007 and 2006

	Notes	2007 SAR'000	2006 SAR'000
OPERATING ACTIVITIES			
Net income for the year		822,185	2,006,258
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Accretion of discounts on non-trading investments, net		(276,088)	(131,859)
Losses (gains) on non-trading investments, net		131,048	(672,639)
Depreciation		43,612	31,441
Allowance for credit losses, net		96,700	96,503
		817,457	1,329,704
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(134,090)	(2,344)
Due from banks and other financial institutions maturing after ninety days from date of acquisition		598,279	(646,550)
Loans and advances		(2,534,130)	(994,130)
Other assets		(215,505)	(338,872)
Net increase in operating liabilities:			
Due to banks and other financial institutions		65,082	456,328
Customers' deposits		4,837,302	72,909
Other liabilities		26,477	40,056
Net cash from (used in) operating activities		3,460,872	(82,899)
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		4,603,459	5,972,781
Purchase of non-trading investments		(8,898,643)	(6,695,771)
Investments in associates		(210,200)	(154,900)
Purchase of property and equipment		(127,965)	(191,913)
Proceeds from sale of property and equipment		25	24,705
Net cash used in investing activities		(4,633,324)	(1,045,098)
FINANCING ACTIVITIES			
Dividends paid		-	(129,938)
Net cash used in financing activities		-	(129,938)
Decrease in cash and cash equivalents		(1,172,452)	(1,257,935)
Cash and cash equivalents at beginning of the year		5,913,366	7,171,301
Cash and cash equivalents at end of the year	23	4,740,914	5,913,366
Special commission received during the year		2,566,675	2,290,743
Special commission paid during the year		1,576,313	1,368,402
Supplemental non-cash information			
Net changes in fair value and transfers to statement of income		53,876	1,181,714
Bonus share issued		1,503,910	687,500

The accompanying notes 1 to 38 form an integral part of these financial statements.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

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 27 branches (2006: 23 branches) in the Kingdom of Saudi Arabia. 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-special commission based banking products, which are approved and supervised by an independent Shariah Board, established by the Bank.

In accordance with new regulatory requirements in Saudi Arabia, all banks are required to spin-off their asset management, brokerage and advisory services into separate entities to be licensed by the Capital Market Authority ("CMA").

In connection with the above, the Bank has obtained the required licenses. The actual transfer of these activities/operations is expected to take place during 2008.

2. Summary of significant accounting policies

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

The accounting policies adopted in the preparation of these financial statements 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, and available-for-sale financial assets. In addition, assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

The Bank has adopted IFRS 7, Financial Instruments: Disclosures, amendments to IAS 1, Presentation of Financial Statements – Capital Disclosures and International Financial Reporting Interpretations Committee, (IFRIC) 10 – Interim Financial Reporting and Impairment effective January 1, 2007 with retrospective effect, wherever applicable. IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendments to IAS 1 introduce disclosures about the level of capital and how the Bank manages capital. IFRIC 10 requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

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

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

b) 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:

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a periodic 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. To the extent that the present value of estimated cash flows differs by +/- 5%, the provision for 2007 would be estimated SAR 26.5 million higher or SAR 26.5 million lower.

(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.

Due to current volatility in the market, 25% or more is used as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the statement of income as provision for impairment for other financial assets.

Prolonged decline represents decline below cost that persists for one year or longer irrespective of the amount and is thus, recognized in the statement of income as provision for impairment for other financial assets.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

c) 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 has significant influence and which is neither a subsidiary nor a joint venture.

d) 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. When settlement date accounting is applied, 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.

e) Derivative financial instruments and hedging

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate 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, discounted cash flow models and pricing models as appropriate.

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

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 an 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 recognised immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the statement of income. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the statement of income.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

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. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in "Other reserves" is transferred to the statement of income for the period.

f) 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 recognised 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.

g) 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.

h) Revenue /expenses recognition

Special commission income and expense for all commission-bearing financial instruments including 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.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

The calculation of the effective commission rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

Exchange income/loss are recognised when earned/incurred.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

Fees and commissions are recognized 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 over the period when the service is being provided.

Dividend income is recognised when the right to receive payment is established.

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

i) 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. The counter-party 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 sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised 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 purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective commission rate basis.

j) Investments

All investment securities are initially recognized at fair value, including acquisition charges associated with the investment. Premiums are amortized and discounts accreted using the effective yield method and are taken to special commission income.

For securities 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. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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 of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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.

(i) Available for sale

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

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 de-recognition, any cumulative gain or loss previously recognized in equity is included in the statement of income for the period.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

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

Loans and advances originated or acquired 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 allowance for credit losses.

For presentation purposes, the Bank has categorized its portfolio of loans and advances that are neither past due nor impaired into two sub categories i.e. standard and special mention, as required by SAMA. Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. The special mention category includes loans and advances that are also performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that may, at some future date, result in the deterioration of the repayment prospects or either the principal or the special commission payments. The special mention loans and advances would not expose the Bank to sufficient risk to warrant a worse classification.

The allowance for credit losses is likewise deducted from loans and advances.

l) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amount.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- i) delinquency in contractual payments of principal or commission
- ii) cash flow difficulties experienced by the borrower
- iii) breach of loan covenants or conditions
- iv) initiation of bankruptcy proceedings
- v) deterioration of borrowers’ competitive position
- vi) deterioration in the value of collateral
- vii) downgrading below investment grade level.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to statement of income or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income in allowance for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective commission rate.

(i) Impairment of financial assets held at amortized cost

A financial asset or group of 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 financial asset or group of financial 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 cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective commission rate.

The Bank first assesses whether objective evidence of impairment exists individually for the financial asset that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If a loan or held to maturity investment has a variable commission rate, the discount rate for measuring an impairment loss is the current effective commission rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purposes of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for the groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual term of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of their contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristic similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of the current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of the conditions in the historical period that do not currently exist.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

(ii) Impairment of available-for-sale financial assets

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 recognized; 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 equity is included in the statement of income for the period.

m) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate 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, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/ loss on disposal.

n) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated 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 the statement of income.

o) Financial liabilities

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

Subsequently all commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised 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 expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognized in the statement of income. For financial liabilities carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

p) 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.

q) Accounting for leases

Leases entered into by the Bank as a lessee, are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

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

r) Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposits and due from banks and other financial institutions with a maturity of three months or less from the date of acquisition.

s) 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 receive 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 expired.

t) Zakat and income taxes

Under Saudi Arabian Zakat and Income tax laws, Zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively. 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 tax are not charged to the Bank's statement of income as they are deducted from the dividends paid to the shareholders.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

2. Summary of significant accounting policies – continued

u) 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.

v) 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, as follows:

High level definitions of non-commission based products:

(i) **Murabaha** is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) **Istisna'a** is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

(iii) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

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

3. Cash and balances with SAMA

	2007 SAR'000	2006 SAR'000
Cash in hand	557,014	339,980
Statutory deposit	655,341	521,251
Total	1,212,355	861,231

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.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

4. Due from banks and other financial institutions

	2007 SAR'000	2006 SAR'000
Current accounts	384,943	261,280
Money market placements	3,926,478	6,037,906
Total	4,311,421	6,299,186

5. Investments

a) Investment securities are classified as follows:

i) Available for sale

	Domestic		International		Total	
	2007 SAR'000	2006 SAR'000	2007 SAR'000	2006 SAR'000	2007 SAR'000	2006 SAR'000
Fixed rate securities	2,395,025	3,482,819	3,664,585	482,003	6,059,610	3,964,822
Floating rate notes	3,948,105	3,530,923	4,495,702	3,012,644	8,443,807	6,543,567
Equities	986,202	655,473	89,226	30,781	1,075,428	686,254
Mutual funds	61,449	219,116	170,982	49,322	232,431	268,438
Total	7,390,781	7,888,331	8,420,495	3,574,750	15,811,276	11,463,081

The domestic fixed rate securities and floating rate notes above include receivable securitization agreements amounting to SR 1,573 million (2006: SR 2,799 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.

ii) Investment in associates

	Domestic		International		Total	
	2007 SAR'000	2006 SAR'000	2007 SAR'000	2006 SAR'000	2007 SAR'000	2006 SAR'000
Total investment in associates	562,131	313,778	-	-	562,131	313,778
Investments	7,952,912	8,202,109	8,420,495	3,574,750	16,373,407	11,776,859

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

	2007			2006		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	589,299	5,470,311	6,059,610	482,003	3,482,819	3,964,822
Floating rate notes	4,824,764	3,619,043	8,443,807	3,012,644	3,530,923	6,543,567
Equities	1,064,299	11,129	1,075,428	675,125	11,129	686,254
Mutual funds	232,431	-	232,431	268,438	-	268,438
Investment in associates	-	562,131	562,131	-	313,778	313,778
Investments	6,710,793	9,662,614	16,373,407	4,438,210	7,338,649	11,776,859

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

5. Investments – continued

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 for Finance and Real Estate Development Co.	29%
Medgulf – KSA	19%
Naeem Investment Company	20%

Equities reported under available-for-sale investments include unquoted shares for SAR 11.1 million (2006: SAR 11.1 million) that are carried at cost, as their fair value cannot be reliably measured. The fair value of these unquoted investments is estimated between SR 10.0 million and SR 12.0 million at year end (2006: SAR 9.0 million to SAR 11.0 million).

Investments include SAR 2,646 million (2006: SAR 5,773 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 2,532 million (2006: SAR 5,743 million)

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

	2007 SAR'000	2006 SAR'000
Government and quasi-Government	7,708,470	3,531,364
Corporate, banks and financial institutions	8,664,937	8,245,495
Total	16,373,407	11,776,859

Most of the corporate, banks and financial institutions investments are graded.

6. Loans and advances, net

a) Loans and advances, held at amortized cost

These are comprised of the following:

	Overdraft SAR'000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
2007					
Performing loans and advances	3,662,902	1,727,779	18,139,719	23,481	23,553,881
Non performing loans and advances, net	271,115	10,582	15,223	-	296,920
Total loans and advances	3,934,017	1,738,361	18,154,942	23,481	23,850,801
Allowance for credit losses	(168,717)	(15,419)	(537,964)	-	(722,100)
Loans and advances, net	3,765,300	1,722,942	17,616,978	23,481	23,128,701

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

6. Loans and advances, net – continued

<u>2006</u>	Overdraft SAR'000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
Performing loans and advances	4,212,873	1,842,920	15,171,396	24,054	21,251,243
Non performing loans and advances, net	<u>187,697</u>	<u>7,016</u>	<u>22,597</u>	<u>-</u>	<u>217,310</u>
Total loans and advances	4,400,570	1,849,936	15,193,993	24,054	21,468,553
Allowance for credit losses	<u>(204,010)</u>	<u>(21,348)</u>	<u>(551,924)</u>	<u>-</u>	<u>(777,282)</u>
Loans and advances, net	<u><u>4,196,560</u></u>	<u><u>1,828,588</u></u>	<u><u>14,642,069</u></u>	<u><u>24,054</u></u>	<u><u>20,691,271</u></u>

The performing loans and advances include SAR 108 million of loans and advances that are past due but not impaired (2006: SAR 359 million).

Loans and advances above include non-commission based banking products in respect of Murabaha agreements and Istisna'a which are stated at amortized cost of SAR 5,803 million (2006: SAR 3,870 million).

b) Movements of allowance for credit losses

<u>2007</u>	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Total SAR'000
Balance at beginning of the year	204,010	21,348	551,924	777,282
Provided (reversal) during the year	110,660	-	(13,960)	96,700
Bad debts written off	(145,953)	(6,756)	-	(152,709)
Recoveries of amounts previously written off	<u>-</u>	<u>827</u>	<u>-</u>	<u>827</u>
Balance at the end of the year	<u><u>168,717</u></u>	<u><u>15,419</u></u>	<u><u>537,964</u></u>	<u><u>722,100</u></u>

<u>2006</u>	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Total SAR'000
Balance at beginning of the year	229,860	28,774	429,571	688,205
Provided (reversal) during the year	(25,850)	-	122,353	96,503
Bad debts written off	-	(9,017)	-	(9,017)
Recoveries of amounts previously written off	<u>-</u>	<u>1,591</u>	<u>-</u>	<u>1,591</u>
Balance at the end of the year	<u><u>204,010</u></u>	<u><u>21,348</u></u>	<u><u>551,924</u></u>	<u><u>777,282</u></u>

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

6. Loans and advances, net – continued

c) Credit quality of loans and advances

(i) Ageing of loans and advances (past due but not impaired)

	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Total SAR'000
2007				
Due within one year	20,720	-	77,027	97,747
Due beyond one year	9,636	-	357	9,993
Total loans and advances, net	30,356	-	77,384	107,740
	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Total SAR'000
2006				
Due within one year	218,554	-	136,129	354,683
Due beyond one year	4,245	-	398	4,643
Total loans and advances, net	222,799	-	136,527	359,326

(ii) Neither past due nor impaired loans

	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
2007					
Standard	3,632,546	1,724,713	18,062,335	23,481	23,443,075
Special mention	-	3,066	-	-	3,066
Total	3,632,546	1,727,779	18,062,335	23,481	23,446,141
	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
2006					
Standard	3,990,074	1,841,605	15,034,869	24,054	20,890,602
Special mention	-	1,315	-	-	1,315
Total	3,990,074	1,842,920	15,034,869	24,054	20,891,917

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

6. Loans and advances, net – continued

(iii) Economic sector risk concentrations for the loans and advances and allowance for credit losses are as follows:

	Performing SAR'000	Non performing SAR'000	Allowance for credit losses SAR'000	Loans and advances, net SAR'000
2007				
Government and quasi-Government	655,605	-	-	655,605
Banks and other financial institutions	1,104,502	-	-	1,104,502
Agriculture and fishing	214,563	-	(2,146)	212,417
Manufacturing	1,857,137	28,862	(76,732)	1,809,267
Building and construction	4,349,031	249	(44,064)	4,305,216
Commerce	8,442,492	145,667	(321,531)	8,266,628
Transportation and communication	64,270	5,110	(11,666)	57,714
Services	686,174	17,973	(66,640)	637,507
Consumer loans	1,727,779	10,582	(15,419)	1,722,942
Other	4,452,328	88,477	(183,902)	4,356,903
Total	23,553,881	296,920	(722,100)	23,128,701
2006				
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	5,629,946	151,905	(456,147)	5,325,704
Transportation and communication	95,756	5,015	(14,863)	85,908
Services	1,462,852	17,528	(84,355)	1,396,025
Consumer loans	1,842,920	7,016	(21,348)	1,828,588
Other	4,050,216	21	(41,131)	4,009,106
Total	21,251,243	217,310	(777,282)	20,691,271

d) Collateral

The Bank in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and other loans and are managed against relevant exposures at their net realizable values. The fair value of collateral held by the Bank against loans and advances (excluding real estate and other fixed asset collaterals, for which the fair value cannot be reliably determined) at December 31, 2007 is SAR 20,215 million.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

6. Loans and advances, net – continued

e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Renegotiated loans that would otherwise be past due or impaired totaled SAR 19.3 million (2006: SAR 9.2 million).

7. Property and equipment, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2007 SAR'000	Total 2006 SAR'000
<u>Cost</u>					
Balance at beginning of the year	261,343	27,160	213,775	502,278	341,124
Additions	95,101	6,346	26,518	127,965	195,987
Disposals	-	-	(4,436)	(4,436)	(34,833)
Balance at end of the year	356,444	33,506	235,857	625,807	502,278
<u>Accumulated depreciation</u>					
Balance at beginning of the year	11,232	19,214	131,455	161,901	136,514
Charge for the year	7,650	3,959	32,003	43,612	31,441
Disposals	-	-	(4,411)	(4,411)	(6,054)
Balance at end of the year	18,882	23,173	159,047	201,102	161,901
<u>Net book value</u>					
As at December 31, 2007	337,562	10,333	76,810	424,705	
As at December 31, 2006	250,111	7,946	82,320		340,377

8. Other assets

	2007 SAR'000	2006 SAR'000
Accrued commission receivable		
– Banks and other financial institutions	44,091	34,470
– Investments	93,971	68,079
– Loans and advances	360,771	358,585
– Other	17,411	16,682
Total accrued commission receivable	516,244	477,816
Accounts receivable	233,742	112,981
Positive fair value of derivatives (note 9)	157,970	77,255
Other real estate	35,124	35,124
Other	148,124	172,523
Total	1,091,204	875,699

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

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. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) 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 SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

9. Derivatives – continued

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 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
<u>2007</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>	<u>SAR'000</u>
Held for trading:								
Forward foreign exchange contracts	11,536	9,980	2,143,626	2,141,976	1,334	192	124	3,215,353
Held as fair value hedges:								
Commission rates swaps	146,434	148,999	874,471	-	-	600,096	274,375	426,148
Total	157,970	158,979	3,018,097	2,141,976	1,334	600,288	274,499	3,641,501

	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
<u>2006</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>	<u>SAR'000</u>
Held for trading:								
Forward foreign exchange contracts	74,359	73,765	5,643,443	4,747,616	826,131	69,696	-	7,629,636
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	7,765,761

The tables below show a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

9. Derivatives – continued

<u>2007</u>						
	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed commission rate investments	871,906	874,471	Fair value	Commission rate swap	146,434	148,999
<u>2006</u>						
	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed commission rate investments	250,396	247,500	Fair value	Commission rate swap	2,896	-

The gains on the hedging instruments for fair value hedge is SAR 52.9 million (2006: SAR nil). The losses on the hedged item attributable to the hedged risk is SAR 26.0 million (2006: SAR nil). The net fair value of the derivatives is SAR 1.0 million (2006: SAR 3.5 million).

Approximately 99% (2006: 97%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 93% (2006: 78%) 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

	<u>2007</u>	<u>2006</u>
	SAR'000	SAR'000
Current accounts	41,381	305,956
Money market deposits	4,470,720	4,141,063
Total	4,512,101	4,447,019

Money market deposits include deposits against sale of fixed rate bonds of SAR 2,513 million (2006: SAR 2,034 million) with agreements to repurchase the same at fixed future dates.

11. Customers' deposits

	<u>2007</u>	<u>2006</u>
	SAR'000	SAR'000
Demand	3,053,434	3,707,521
Saving	3,176,748	2,627,467
Time	18,374,675	16,397,460
Other	8,163,414	5,198,521
Total	32,768,271	27,930,969

THE SAUDI INVESTMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

11. Customers' deposits - continued

Time deposits include deposits against sale of securities of SAR 1,575 million (2006: SAR 457 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 117 million (2006: SAR 108 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2007 SAR'000	2006 SAR'000
Demand	359,399	258,276
Saving	277,756	235,906
Time	3,071,129	2,260,873
Other	2,690,678	770,064
Total	6,398,962	3,525,119

12. Other liabilities

	2007 SAR'000	2006 SAR'000
Accrued commission payable		
– Banks and other financial institutions	46,196	91,013
– Customers' deposits	280,970	262,333
– Term loan	11,325	12,345
Total accrued commission payable	338,491	365,691
Negative fair value of derivatives (note 9)	158,979	73,765
Other	569,325	600,862
Total	1,066,795	1,040,318

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 (SAR 1,425 million) for general corporate purposes. The facility has been fully utilized and is repayable in August 2008. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related syndicated agreement.

14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 391.0 million shares (2006: 240.6 million shares) at SAR 10 each.

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

	2007 %	2006 %
Saudi shareholders	90.0	90.0
Foreign shareholders:		
– J.P. Morgan International Finance Limited	7.5	7.5
– Mizuho Corporate Bank Limited	2.5	2.5

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For the years ended December 31, 2007 and 2006

14 . Share capital - continued

The Board of Directors proposed a bonus share issue of 150,391,000 share of SAR 10 each which was approved in the shareholders' extraordinary general assembly meeting held on Safar 10, 1428H (corresponding to February 28, 2007G). Accordingly, the total number of issued and outstanding shares increased to 391,016,000.

On February 28, 2007, the share capital increased from SR 2,406 million to SR 3,910 million, through a transfer from retained earnings.

In its meeting held on Muharram 29, 1429H (corresponding to January 08, 2008G), the Board of Directors approved the recommendation to the extraordinary general assembly meeting to increase its capital from SAR 3,910 million (391,016,000 shares) to SAR 4,500 million (450,000,000 shares) with an increase of 15.1% by issuing one new share for every 6.63 outstanding shares. This will increase the total number of outstanding shares by 58,984,000.

15. Statutory reserve

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 206 million has been transferred from 2007 net income (2006: SAR 502 million). The statutory reserve is not available for distribution.

16 Commitments and contingencies

a) Legal proceedings

As at December 31, 2007 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 not probable 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, 2007, the Bank had capital commitments of SAR 163.3 million (2006: SAR 79.6 million) in respect of construction for new branches and building expansion of its head office.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. 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.

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For the years ended December 31, 2007 and 2006

16. Commitment and contingencies – continued

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 contractual 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
2007					
Letters of credit	903,457	249,137	121,131	-	1,273,725
Letters of guarantee	541,361	966,133	823,097	1,930	2,332,521
Acceptances	444,043	361,606	11,526	-	817,175
Irrevocable commitments to extend credit	-	13,097	34,784	3,196	51,077
Total	1,888,861	1,589,973	990,538	5,126	4,474,498
	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
2006					
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

The outstanding unused portion of commitments as at December 31, 2007 which can be revoked unilaterally at any time by the Bank, amounts to SAR 12,489 million (2006: SAR 10,349 million).

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

	2007 SAR'000	2006 SAR'000
Government and quasi-Government	1,574,138	1,406,084
Corporate	2,446,521	1,964,536
Banks and other financial institutions	222,669	218,649
Other	231,170	92,977
Total	4,474,498	3,682,246

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For the years ended December 31, 2007 and 2006

16. Commitment and contingencies – continued

d) Assets pledged

Securities pledged under repurchase agreements with other banks are government bonds. Other non-government bonds are also pledged under repurchase agreements.

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

	2007		2006	
	Assets	Related liabilities	Assets	Related liabilities
	SAR'000	SAR'000	SAR'000	SAR'000
Available-for-sale investments (note 5)	<u>2,646,119</u>	<u>2,513,244</u>	<u>2,061,389</u>	<u>2,034,398</u>

e) Operating lease commitments

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

	2007	2006
	SAR'000	SAR'000
Less than 1 year	28,927	18,329
1 to 5 years	53,138	57,043
Over 5 years	77,067	60,852
Total	<u>159,132</u>	<u>136,224</u>

17. Net special commission income

	2007	2006
	SAR'000	SAR'000
Special commission income		
Investments		
– Available for sale	736,567	462,427
– Held to maturity	-	10,089
	<u>736,567</u>	<u>472,516</u>
Due from banks and other financial institutions	260,107	383,312
Loans and advances	<u>1,608,429</u>	<u>1,649,499</u>
Total	<u>2,605,103</u>	<u>2,505,327</u>
Special commission expense		
Due to banks and other financial institutions	245,187	216,507
Customers' deposits	977,801	915,180
Term loan	82,329	78,160
Other	<u>243,796</u>	<u>264,997</u>
Total	<u>1,549,113</u>	<u>1,474,844</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

18. Fees from banking services, net

	2007 <u>SAR'000</u>	2006 <u>SAR'000</u>
Fee income:		
- Share trading and fund management	344,332	831,300
- Trade finance	45,944	33,399
- Corporate finance and advisory	64,668	67,366
- Other banking services	20,550	20,216
Total fee income	<u>475,494</u>	<u>952,281</u>
Fee expense:		
- Custodial services	75,943	167,659
- Other banking services	1,221	693
Total fee expense	<u>77,164</u>	<u>168,352</u>
Fees from banking services, net	<u><u>398,330</u></u>	<u><u>783,929</u></u>

19. Dividend income

	2007 <u>SAR'000</u>	2006 <u>SAR'000</u>
Investments		
- Available for sale	25,527	30,055
- Other	9,860	4,338
Total	<u><u>35,387</u></u>	<u><u>34,393</u></u>

20. (Losses) gains on non-trading investments, net

	2007 <u>SAR'000</u>	2006 <u>SAR'000</u>
Realized gain on available-for-sale investments	101,199	672,639
Impairment losses on available-for-sale investments	(232,247)	-
Total	<u><u>(131,048)</u></u>	<u><u>672,639</u></u>

21. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2007 and 2006 is calculated by dividing the net income for the year attributable to the equity holders by 391.0 million shares.

Basic and diluted earnings per share for 2006 has been adjusted to reflect the issuance of bonus shares during 2007.

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For the years ended December 31, 2007 and 2006

22. Proposed gross dividend, zakat and income tax

The Board of Directors has not proposed any dividend for the year 2007. In 2006, the Board of Directors proposed a bonus share issue of 150,391,000 shares of SAR 10 each which was approved in the shareholders' extraordinary general assembly meeting held on Safar 10, 1428H (corresponding to February 28, 2007G). Accordingly, the total number of issued and outstanding shares increased to 391,016,000.

The dividends are paid to the Saudi and non-Saudi 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 18.3 million (2006: SAR 45.2 million) which will be deducted from their future share of dividend. The cumulative Zakat for 2007 and 2006 amounted to SAR 0.24 per share to be deducted from their share of future dividend.

b) Foreign shareholders:

Income tax payable on the current year's share of income is approximately SAR 16.8 million (2006: SAR 41 million).

23. Cash and cash equivalents

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

	2007 SAR'000	2006 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 3)	557,014	339,980
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	4,183,900	5,573,386
Total	4,740,914	5,913,366

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 business segments.

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:

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 investment banking

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

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

24. Business segments – continued

Commission is charged to business segments based on a pool rate, which approximates the marginal cost of funds.

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 inter-bank rates.

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

<u>2007</u>	(SAR'000)			
	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and investment banking</u>	<u>Total</u>
Total assets	11,965,581	13,512,473	21,063,739	46,541,793
Total liabilities	11,426,030	20,498,777	7,847,360	39,772,167
Total operating income	627,421	564,136	211,541	1,403,098
Total operating expenses	280,111	187,754	113,048	580,913
Net income	347,310	376,382	98,493	822,185

<u>2006</u>	(SAR'000)			
	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Treasury and investment banking</u>	<u>Total</u>
Total assets	11,638,392	10,950,243	18,255,988	40,844,623
Total liabilities	10,267,407	17,456,081	7,119,818	34,843,306
Total operating income	1,166,143	398,977	991,146	2,556,266
Total operating expenses	250,215	178,660	121,133	550,008
Net income	915,928	220,317	870,013	2,006,258

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For the years ended December 31, 2007 and 2006

24. Business segments – continued

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

	(SAR'000)			
	Retail banking	Corporate banking	Treasury and investment banking	Total
2007				
Balance sheet assets	11,965,581	13,512,473	21,063,739	46,541,793
Commitments and contingencies	903,030	1,223,770	111,381	2,238,181
Derivatives	-	-	34,128	34,128
	(SAR'000)			
	Retail banking	Corporate banking	Treasury and investment banking	Total
2006				
Balance sheet assets	11,638,392	10,950,243	18,255,988	40,844,623
Commitments and contingencies	713,406	934,926	104,055	1,752,387
Derivatives	-	-	110,394	110,394

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 are included in credit exposure.

25. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses the external ratings of the major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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NOTES TO THE FINANCIAL STATEMENTS

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25. Credit risk – continued

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through 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 Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments and contingencies in note 16. The information on Bank's credit exposure by business segment is given in note 24. The information on credit risk exposure and their relative risk weights is also provided in note 33.

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 ten classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions respectively. The Bank determines each individual borrower's grade based on specific objective and subjective criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. 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.

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For the years ended December 31, 2007 and 2006

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'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
2007							
ASSETS							
Cash and balances with SAMA	1,198,780	345	6,432	6,798	-	-	1,212,355
Due from banks and other financial institutions	2,760,281	323,953	920,883	286,424	1,050	18,830	4,311,421
Investments	10,643,891	-	259,272	5,470,244	-	-	16,373,407
Loans and advances, net	23,072,545	-	-	-	56,156	-	23,128,701
Total Assets	37,675,497	324,298	1,186,587	5,763,466	57,206	18,830	45,025,884
LIABILITIES							
Due to banks and other financial institutions	1,390,273	326,637	2,638,323	156,389	479	-	4,512,101
Customers' deposits	32,768,271	-	-	-	-	-	32,768,271
Term loan	168,750	525,000	693,750	-	37,500	-	1,425,000
Total Liabilities	34,327,294	851,637	3,332,073	156,389	37,979	-	38,705,372
Commitments and contingencies	2,679,826	403,008	450,923	737,024	193,013	10,704	4,474,498
Credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	1,268,126	82,370	135,403	678,373	71,768	2,141	2,238,181
Derivatives	16,867	20,208	(3,330)	383	-	-	34,128

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For the years ended December 31, 2007 and 2006

26. Geographical concentration - continued

	(SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
2006							
Assets							
Cash and balances with SAMA	855,771	434	1,945	3,081	-	-	861,231
Due from banks and other							
financial institutions	4,358,523	1,254,468	448,356	209,594	116	28,129	6,299,186
Investmentst	8,202,110	-	-	3,574,749	-	-	11,776,859
Loans and advances, net	<u>20,456,653</u>	<u>159,268</u>	<u>-</u>	<u>-</u>	<u>71,819</u>	<u>3,531</u>	<u>20,691,271</u>
Total Assets	<u>33,873,057</u>	<u>1,414,170</u>	<u>450,301</u>	<u>3,787,424</u>	<u>71,935</u>	<u>31,660</u>	<u>39,628,547</u>
Liabilities							
Due to banks and other							
financial institutions	1,386,916	570,934	170,120	2,318,402	647	-	4,447,019
Customers' deposits	27,930,969	-	-	-	-	-	27,930,969
Term loan	<u>168,750</u>	<u>525,000</u>	<u>693,750</u>	<u>-</u>	<u>37,500</u>	<u>-</u>	<u>1,425,000</u>
Total Liabilities	<u>29,486,635</u>	<u>1,095,934</u>	<u>863,870</u>	<u>2,318,402</u>	<u>38,147</u>	<u>-</u>	<u>33,802,988</u>
Commitments and contingencies	<u>2,528,655</u>	<u>219,647</u>	<u>196,208</u>	<u>487,680</u>	<u>242,078</u>	<u>7,978</u>	<u>3,682,246</u>
Credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	<u>1,132,012</u>	<u>43,358</u>	<u>86,304</u>	<u>440,997</u>	<u>48,120</u>	<u>1,596</u>	<u>1,752,387</u>
Derivatives	<u>53,558</u>	<u>13,547</u>	<u>25,288</u>	<u>17,851</u>	<u>150</u>	<u>-</u>	<u>110,394</u>

Credit equivalent amounts reflect the amounts that result from translating the 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, 2007 and 2006 under the Kingdom of Saudi Arabia do not include money market placements and deposits on account of foreign branches of local banks.

b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as at December 31, 2007 and 2006 are entirely in the Kingdom of Saudi Arabia.

27. Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading or banking-book.

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For the years ended December 31, 2007 and 2006

27. Market risk – continued

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank currently has no significant trading book exposures.

b) Market risk – non trading book

Market risk on non-trading positions mainly arises from the commission rate, foreign currency exposures and equity price changes.

(i) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2007 and 2006, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2007 and 2006 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

<u>2007</u>			<u>Sensitivity of Equity (SAR'000)</u>				
<u>Currency</u>	<u>Increase in basis</u>	<u>Sensitivity of commission income</u>	<u>6 months or less</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
SAR	+5 / -5	+7,319/-7,319	+805/-805	+276/-276	+1,217/-1,217	-	+2,298/-2,298
USD	+10 / -10	+5,661/-5,661	+954/-954	-	+249/-249	-	+1,203/-1,203
EUR	+15 / -15	+429/-429	-	+3,889/-3,889	-	-	+3,889/-3,889
Others	+25 / -25	-	-	-	-	-	-
<u>2006</u>			<u>Sensitivity of Equity (SAR'000)</u>				
<u>Currency</u>	<u>Increase in basis</u>	<u>Sensitivity of commission income</u>	<u>6 months or less</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
SAR	+5 / -5	+7,008/-7,008	+863/-863	+367/-367	+512/-512	-	+1,742/-1,742
USD	+10 / -10	+3,793/-3,793	+240/-240	-	-	-	+240/-240
EUR	+15 / -15	-	-	+3,636/-3,636	-	-	+3,636/-3,636
Others	+25 / -25	-	-	-	-	-	-

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27. Market risk - continued

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2007 and 2006 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR based on historical movements, with all other variables held constant, on the statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in statement of income, whereas a negative effect shows a potential net reduction in statement of income.

Currency Exposures As at December 31, 2007	Change in currency rate in %	Effect on Net Income (SAR'000)
USD	-	-
EUR	+7.4 / -7.4	+252 / -252
GBP	+7.0 / -7.0	+111 / -111
Currency Exposures As at December 31, 2006	Change in currency rate in %	Effect on Net Income (SAR'000)
USD	-	-
EUR	+8.9 / -8.9	+735 / -735
GBP	+6.7 / -6.7	+158 / -158

(iii) Equity price risk

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

<u>Market Indices</u>	December 31, 2007		December 31, 2006	
	Change in equity price %	Effect in SAR'000	Change in equity price %	Effect in SAR'000
Tadawal	+35 / -35	+191,125 / -191,125	+35 / -35	+189,034 / -189,034
NASDAQ	+15 / -15	+9,383 / -9,383	+15 / -15	+9,381 / -9,381
Unquoted	+5 / -5	+556 / -556	+5 / -5	+556 / -556

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28. Currency risk

The Bank manages exposure to the 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:

	2007 SAR '000 Long/(short)	2006 SAR '000 Long/(short)
US Dollar	122,173	1,086,971
Euro	(356)	8,295
Pound sterling	1,587	2,348
Japanese yen	1,325	3,965
U.A.E Dirham	4,145	879
Others	2,069	9,138
Total	130,943	1,111,596

29. Commission rate risk

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

The Bank manages exposure to the effects of various risks associated with the effect of fluctuations in prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored daily by Bank treasury.

The table below summarizes 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.

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29. Commission rate risk – continued

<u>2007</u>	(SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
Assets						
Cash and balances with SAMA	-	-	-	-	1,212,355	1,212,355
Due from banks and other financial institutions	3,798,957	108,767	18,753	-	384,944	4,311,421
Investments	10,238,290	1,250,555	2,684,154	330,418	1,869,990	16,373,407
Loans and advances, net	8,779,912	5,854,782	7,731,214	762,793	-	23,128,701
Property and equipment, net	-	-	-	-	424,705	424,705
Other assets	-	-	-	-	1,091,204	1,091,204
Total assets	22,817,159	7,214,104	10,434,121	1,093,211	4,983,198	46,541,793
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,750,235	720,485	-	-	41,381	4,512,101
Customers' deposits	20,880,224	4,662,819	95,900	-	7,129,328	32,768,271
Other liabilities	-	-	-	-	1,066,795	1,066,795
Term loan	1,425,000	-	-	-	-	1,425,000
Shareholders' equity	-	-	-	-	6,769,626	6,769,626
Total liabilities and shareholders' equity	26,055,459	5,383,304	95,900	-	15,007,130	46,541,793
Commission rate sensitivity-On balance sheet	(3,238,300)	1,830,800	10,338,221	1,093,211	(10,023,932)	-
Commission rate sensitivity-Off balance sheet	-	874,471	(600,096)	(274,375)	-	-
Cumulative commission rate sensitivity gap	(3,238,300)	(533,029)	9,205,096	10,023,932	-	-

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29. Commission rate risk – continued

2006	(SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
Assets						
Cash and balances with SAMA	-	-	-	-	861,231	861,231
Due from banks and other financial institutions	5,312,106	185,800	521,250	18,750	261,280	6,299,186
Investments	7,383,447	1,607,663	1,023,010	-	1,762,739	11,776,859
Loans and advances, net	10,333,279	5,006,491	4,957,581	393,920	-	20,691,271
Property and equipment, net	-	-	-	-	340,377	340,377
Other assets	-	-	-	-	875,699	875,699
Total assets	23,028,832	6,799,954	6,501,841	412,670	4,101,326	40,844,623
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,125,318	415,745	600,000	-	305,956	4,447,019
Customers' deposits	17,143,673	3,522,859	404,143	-	6,860,294	27,930,969
Other liabilities	-	-	-	-	1,040,318	1,040,318
Term loan	-	1,425,000	-	-	-	1,425,000
Shareholders' equity	-	-	-	-	6,001,317	6,001,317
Total liabilities and shareholders' equity	20,268,991	5,363,604	1,004,143	-	14,207,885	40,844,623
Commission rate sensitivity-On balance sheet gap	2,759,841	1,436,350	5,497,698	412,670	(10,106,559)	-
Commission rate sensitivity-Off balance sheet gap	247,500	(247,500)	-	-	-	-
Cumulative commission rate sensitivity gap	3,007,341	4,196,191	9,693,889	10,106,559	-	-

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

30. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarizes 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.

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30. Liquidity risk – continued

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALMAC. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALMAC.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 9% (2006: 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'000)					
	Within 3	3-12	1-5	Over 5	No fixed	Total
	months	months	years	years	maturity	
2007						
Assets						
Cash and balances with SAMA	-	-	-	-	1,212,355	1,212,355
Due from banks and other financial institutions	3,798,957	108,767	18,753	-	384,944	4,311,421
Investments	2,071,280	860,413	7,008,800	4,562,924	1,869,990	16,373,407
Loans and advances, net	8,887,691	5,813,406	7,691,163	736,441	-	23,128,701
Property and equipment, net	-	-	-	-	424,705	424,705
Other assets	-	-	-	-	1,091,204	1,091,204
Total assets	14,757,928	6,782,586	14,718,716	5,299,365	4,983,198	46,541,793
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,750,235	720,485	-	-	41,381	4,512,101
Customers' deposits	20,880,224	4,662,819	95,900	-	7,129,328	32,768,271
Other liabilities	-	-	-	-	1,066,795	1,066,795
Term loan	-	1,425,000	-	-	-	1,425,000
Shareholders' equity	-	-	-	-	6,769,626	6,769,626
Total liabilities and shareholders' equity	24,630,459	6,808,304	95,900	-	15,007,130	46,541,793
Derivative, commitments and contingencies	1,888,861	1,589,973	990,538	5,126	-	4,474,498
Total undiscounted financial liabilities	26,519,320	8,398,277	1,086,438	5,126	7,509,200	43,518,361

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30. Liquidity risk – continued

	(SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2006						
Assets						
Cash and balances with SAMA	-	-	-	-	861,231	861,231
Due from banks and other financial institutions	5,312,106	185,800	540,000	-	261,280	6,299,186
Investments	859,919	1,319,727	4,432,974	3,401,500	1,762,739	11,776,859
Loans and advances, net	10,333,279	5,006,491	4,957,581	393,920	-	20,691,271
Property and equipment, net	-	-	-	-	340,377	340,377
Other assets	-	-	-	-	875,699	875,699
Total assets	16,505,304	6,512,018	9,930,555	3,795,420	4,101,326	40,844,623
Liabilities and shareholders' equity						
Due from banks and other financial institutions	3,125,318	515,745	500,000	-	305,956	4,447,019
Customers' deposits	17,081,876	3,565,180	423,619	-	6,860,294	27,930,969
Other liabilities	-	-	-	-	1,040,318	1,040,318
Term loan	-	-	1,425,000	-	-	1,425,000
Shareholders' equity	-	-	-	-	6,001,317	6,001,317
Total liabilities and shareholders' equity	20,207,194	4,080,925	2,348,619	-	14,207,885	40,844,623
Derivative, commitments and contingencies	1,477,912	1,461,174	564,706	178,454	-	3,682,246
Total undiscounted financial liabilities	21,746,903	6,824,778	1,568,849	178,454	7,531,941	37,850,925

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 16c(i) of the financial statements.

31. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statements. The fair values of loans and advances, commission bearing customers' deposits, term loan, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

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31. Fair values of financial assets and liabilities - continued

The estimated fair values of held-to-maturity investments and other investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 5.

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 20.8 million (2006: SAR -3.3 million).

The value obtained from the relevant valuation model may differ, with the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the income statement without reversal of deferred day one profits and losses.

32. Related party transactions

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

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

	2007 SAR'000	2006 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	154,621	147,234
Due to banks and other financial institutions	94,210	299,994
Commitments and contingencies	395,900	9,726
Associates:		
Loans and advances, net	38,000	424,000
Customers' deposits	722,795	598,606
Commitments and contingencies	156,739	281,900
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Due from banks and other financial institutions	-	80,500
Due to banks and other financial institutions	650,000	-
Investments	1,178,416	2,798,768
Loans and advances, net	492,227	812,808
Customers' deposits	4,289,341	4,317,697
Commitments and contingencies	494,357	197,335
Bank's mutual funds and employees' post-employment benefit plan:		
Investments	280,715	268,438
Customers' deposits	48,940	14,682

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32. Related party transactions - continued

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:

	2007 SAR'000	2006 SAR'000
Special commission income	172,495	210,315
Special commission expense	262,998	118,395
Fees from banking services, net	88,171	95,328
Directors' remuneration	1,622	1,380

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

	2007 SAR'000	2006 SAR'000
Short-term employee benefits	10,872	11,191
Post-employment benefits	1,119	1,226

33. Capital adequacy

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires to hold the minimum level of the regulatory capital of and maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

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33. Capital adequacy - continued

	2007		2006	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Tier 1 capital	6,769,626	21%	6,001,317	23%
Total regulatory capital (Tier 1 + Tier 2)	7,172,425	22%	6,321,141	25%

Risk-weighted assets:

	2007 SAR'000			2006 SAR '000		
	Carrying/ notional value	Credit equivalent	Risk weighted assets	Carrying/ notional value	Credit equivalent	Risk weighted assets
<u>Balance sheet assets</u>						
0%	8,762,719	8,762,719	-	5,023,363	5,023,363	-
20%	8,662,535	8,662,535	1,732,507	14,115,561	14,115,561	2,823,112
100%	29,116,539	29,116,539	29,116,539	21,705,699	21,705,699	21,705,699
Total	46,541,793	46,541,793	30,849,046	40,844,623	40,844,623	24,528,811
<u>Commitments and contingencies</u>						
0%	1,690,586	835,341	-	1,511,089	-	-
20%	223,791	110,937	22,306	218,649	170,104	21,853
100%	2,560,121	1,291,903	1,342,387	1,952,508	1,582,283	997,556
Total	4,474,498	2,238,181	1,364,693	3,682,246	1,752,387	1,019,409
<u>Derivatives</u>						
0%	-	-	-	-	-	-
20%	2,465,065	23,067	4,613	3,287,530	58,326	11,665
50%	553,032	11,061	5,530	2,603,413	52,068	26,034
Total	3,018,097	34,128	10,143	5,890,943	110,394	37,699
Total risk-weighted assets	54,034,388	48,814,102	32,223,882	50,417,812	42,707,404	25,585,919

34. Investment management services

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

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34. Investment management services - continued

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 SAR 8,126 million (2006: SAR 6,370 million) out of which Islamic portfolio totaling SAR 1,766 million (2006: SAR 1,765 million).

35. Basel II Framework

Effective January 1, 2008 as approved by SAMA, the Bank plans to implement new Basel framework on capital adequacy, commonly known as Basel II Framework issued by the Basel Committee on banking supervision. This might change the capital adequacy ratios depicted in note 33.

36. Issued IFRS but not yet effective

The Bank has chosen not to early adopt IFRS 8, Operating Segments which has been published and is mandatory for compliance for the Bank's fiscal year beginning January 1, 2009. The financial impact of the new standard as a result of implementation of above standard is not significant.

37. Comparative figures

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

38. Board of Director's approval

The financial statements were approved by the Board of Directors on Muharram 10, 1429H corresponding to January 19, 2008.