Saudi Hollandi Bank البنك السعودي الهولندي

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Un-audited)

FOR THE SIX MONTH PERIOD ENDED

JUNE 30, 2013

Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	Notes	June 30, 2013 (Un-audited)	December 31, 2012 (Audited)	June 30, 2012 (Un-audited)
ASSETS				
Cash and balances with SAMA		**5,851,061**	9,562,455	6,528,180
Due from banks and other financial institutions		**1,768,747**	840,717	715,661
Investments, net	5	**15,084,224**	11,378,577	10,952,436
Loans and advances, net	6	**52,016,852**	45,276,199	41,919,688
Investment in an associate		**18,382**	18,050	18,495
Property and equipment, net		**490,024**	488,767	487,686
Other assets		**1,205,407**	940,748	1,008,419
Total assets		**76,434,697**	68,505,513	61,630,565
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		**2,030,768**	1,474,923	970,505
Customers' deposits	7	**61,255,759**	53,913,672	49,620,910
Subordinated debt		**2,900,000**	2,900,000	1,500,000
Other liabilities		**1,659,145**	1,910,939	1,873,012
Total liabilities		**67,845,672**	60,199,534	53,964,427
Shareholders' equity				
Share capital		**3,969,000**	3,969,000	3,969,000
Statutory reserve		**2,705,726**	2,705,726	2,392,480
General reserve		**130,000**	130,000	130,000
Other reserves		**(76)**	(5,790)	(10,870)
Retained earnings		**1,772,328**	1,051,286	1,178,424
Proposed dividend		**-**	444,528	-
Staff share plan reserve		**12,047**	11,229	7,104
Total shareholders' equity		**8,589,025**	8,305,979	7,666,138
Total liabilities and shareholders' equity		**76,434,697**	68,505,513	61,630,565

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The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

Amounts in SAR'000 (Un-audited)

	Notes	For the three month period ended		For the six month period ended	
		June 30, 2013	*June 30, 2012*	***June 30, 2013***	*June 30, 2012*
Special commission income		**510,966**	413,602	**976,511**	822,115
Special commission expense		**99,185**	69,779	**212,806**	156,292
Net special commission income		**411,781**	343,823	**763,705**	665,823
Fee and commission income, net		**191,379**	156,702	**365,611**	309,149
Exchange income, net		**32,529**	29,243	**60,783**	60,470
Trading income, net		**57,965**	25,275	**87,482**	54,906
(Losses) / gains on non-trading investments, net		**-**	(141)	**-**	4,501
Total operating income		**693,654**	554,902	**1,277,581**	1,094,849
Salaries and employee related expenses		**126,794**	117,261	**251,449**	234,936
Rent and premises related expenses		**20,865**	18,004	**41,688**	36,966
Depreciation and amortisation		**24,829**	28,030	**49,840**	56,036
Other general and administrative expenses		**46,341**	45,963	**92,055**	94,964
Impairment charge for credit losses, net		**100,037**	14,115	**121,839**	58,345
Impairment release of investments		**-**	-	**-**	(8,000)
Total operating expenses		**318,866**	223,373	**556,871**	473,247
Operating income		**374,788**	331,529	**720,710**	621,602
Share in earnings of an associate		**-**	745	**332**	745
Net income for the period		**374,788**	332,274	**721,042**	622,347
Basic and diluted earnings per share (expressed in SAR per share)	13	**0.94**	0.84	**1.82**	1.57

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The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SAR'000 (Un-audited)

	For the three month period ended		**For the six month period ended**	
	June 30, 2013	*June 30, 2012*	***June 30, 2013***	*June 30, 2012*
Net income for the period	**374,788**	332,274	**721,042**	622,347
Other comprehensive income				
Available for sale investments				
- Net change in fair value	**(236)**	(2,953)	**1,696**	3,958
- Transferred to interim condensed consolidated statement of income	**449**	1,502	**898**	3,117
	213	(1,451)	**2,594**	7,075
Cash flow hedges				
- Effective portion of changes in fair value recognised	**1,650**	1,681	**3,120**	2,295
Total comprehensive income for the period	**376,651**	332,504	**726,756**	631,717

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The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month period ended June 30, 2013 and 2012

Amounts in SAR'000 (Un-audited)

	Share capital	Statutory reserve	General Reserve	Other reserves: Available for sale investments	Other reserves: Cash flow hedges	Reserve for bonus shares	Retained earnings	Proposed dividend	Staff share based plan reserve	Total Share-holders' equity
2013										
Balance at the beginning of the period	**3,969,000**	**2,705,726**	**130,000**	**565**	**(6,355)**	**-**	**1,051,286**	**444,528**	**11,229**	**8,305,979**
Total comprehensive income for the period	**-**	**-**	**-**	**2,594**	**3,120**	**-**	**721,042**	**-**	**-**	**726,756**
Dividend paid	-	-	-	-	-	-	-	**(444,528)**	-	**(444,528)**
Staff share based plan transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**818**	**818**
Balance at the end of the period	**3,969,000**	**2,705,726**	**130,000**	**3,159**	**(3,235)**	**-**	**1,772,328**	**-**	**12,047**	**8,589,025**
2012										
Balance at the beginning of the period	3,307,500	2,392,480	130,000	(8,366)	(11,874)	661,500	556,077	377,055	3,950	7,408,322
Total comprehensive income for the period	-	-	-	7,075	2,295	-	622,347	-	-	631,717
Bonus shares issued	661,500	-	-	-	-	(661,500)	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	(377,055)	-	(377,055)
Staff share based plan transactions	-	-	-	-	-	-	-	-	3,154	3,154
Balance at the end of the period	3,969,000	2,392,480	130,000	(1,291)	(9,579)	-	1,178,424	-	7,104	7,666,138

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The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended June 30, 2013 and 2012

Amounts in SAR'000 (Un-audited)

	Note	2013	2012
OPERATING ACTIVITIES			
Net income for the period		**721,042**	622,347
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		**(38,055)**	(19,479)
Gains on non-trading investments, net		**-**	(4,501)
Depreciation and amortisation		**49,840**	56,036
Staff share based plan expenses		**4,858**	3,154
Impairment charge for credit losses		**121,839**	58,345
Share in earnings of an associate		**(332)**	(745)
Impairment release of investments		**-**	(8,000)
		859,192	707,157
Net (increase) /decrease in operating assets:			
Statutory deposit with SAMA		**(444,767)**	(231,376)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(937,000)**	-
Investments held at FVIS (including trading investments)		**-**	11,110
Loans and advances, net		**(6,862,492)**	(4,568,435)
Other assets		**(469,373)**	(662,045)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**555,845**	(640,586)
Customers' deposits		**7,342,087**	4,932,174
Other liabilities		**(251,794)**	529,250
Net cash (used in) / from operating activities		**(208,302)**	77,249
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments		**2,524,232**	10,354,483
Purchase of non-trading investments		**(6,191,824)**	(9,748,237)
Purchase of property and equipment		**(51,097)**	(54,223)
Net cash (used in) / from investing activities		**(3,718,689)**	552,023
FINANCING ACTIVITIES			
Dividend paid net of Zakat and tax recovered from shareholders		**(238,140)**	(198,450)
Net cash used in financing activities		**(238,140)**	(198,450)
Net (decrease) / increase in cash and cash equivalents		**(4,165,131)**	430,822
Cash and cash equivalents at beginning of the period		**7,796,044**	4,323,141
Cash and cash equivalents at end of the period	10	**3,630,913**	4,753,963
Special commission received during the period		**930,263**	791,585
Special commission paid during the period		**220,834**	151,703
<u>Supplemental non-cash information</u>			
Net changes in fair value and transfers to interim condensed consolidated statement of comprehensive income		**5,714**	9,370

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The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six month period ended June 30, 2013

1. GENERAL

Saudi Hollandi Bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 17 Shaaban 1397H (corresponding to August 3, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 47 branches (December 31, 2012: 45 branches and June 30, 2012: 44 branches) in the Kingdom of Saudi Arabia. The postal address of the Bank’s head office is:

Saudi Hollandi Bank
Head Office
Al - Dhabab Street
P O Box 1467
Riyadh 11431
Kingdom of Saudi Arabia

The interim condensed consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries (collectively referred to as "the Group"). The details of these subsidiaries are set out below:

Saudi Hollandi Capital (SHC)

SHC was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities related to dealing, managing, arranging, advising and taking custody of securities regulated by CMA. SHC commenced its operations effective 2 Rabi’II 1429H (corresponding to April 9, 2008).

Saudi Hollandi Real Estate Company (SHREC)

SHREC, a wholly owned subsidiary of the Bank through direct ownership, was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collateral.

Saudi Hollandi Insurance Agency Company (SHIAC)

SHIAC, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, selling its insurance products.

The objective of the Group is to provide a full range of banking and investment services. The Group also provides to its customers Islamic (non-commission based) banking products which are approved and supervised by an independent Shariah Board.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the SAMA and International Accounting Standard (IAS) 34 – “Interim Financial Reporting”. The Group prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2012.

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

2. Basis of preparation *(continued)*

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2012.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand.

3. BASIS OF CONSOLIDATION

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the interim condensed financial statements of the subsidiaries, where necessary, to align with the Bank's interim condensed consolidated financial statements.

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2012 except for the adoption of the following new standards and other amendments to existing standards mentioned below which has had an insignificant effect on the interim condensed consolidated financial statements of the Group on the current period or prior period and is expected to have an insignificant effect in future periods:

a) New standards

- IFRS 10 Consolidated financial statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Standard introduces a single consolidation model for all entities based on control; irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in ("special purpose entities").

- IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Amendments to existing standards

- Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

- IAS 19 Employee Benefits – Amendments: The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income.

- IAS 27 Separate Financial Statements (2011): now only deals with the requirements for separate financial statements, which have been carried over largely un-amended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments have not changed.

- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:

  - IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;

  - IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;

  - IAS 16 – Property, plant and equipment: Classification of servicing equipment;

  - IAS 32 – Financial instruments presentation: Income tax consequences of distributions;

  - IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six month period ended June 30, 2013
Amounts in SAR'000

5. INVESTMENTS, NET

a) Investment securities are classified as follows:	***June 30, 2013 (Un-audited)***	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
- Available for sale (AFS)	**421,371**	240,487	580,951
- Other investments held at amortised cost (OI)	**14,558,636**	11,032,635	10,229,189
- Held to maturity (HTM)	**104,217**	105,455	142,296
Total	**15,084,224**	11,378,577	10,952,436

b) Investments reclassification

Management identified certain AFS investments, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to exit or trade in the short term. As a result these instruments were reclassified at that date from AFS to OI at fair value. Had the reclassification not been made, other reserves would have included unrealised fair value gains / (losses) amounting to SAR 3 million (December 31, 2012: SAR (2) million and June 30, 2012: SAR (34) million) and shareholders' equity would have been higher / (lower) by the same amount.

The following table shows carrying values and fair values of the reclassified investments.

	Carrying value			***Fair value***		
	June 30, 2013 (Un-audited)	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*	***June 30, 2013 (Un-audited)***	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
AFS securities reclassified	**145,522**	144,590	374,679	**140,052**	135,172	350,950

Further, with effect from July 20, 2011, the Group reclassified certain trading investments amounting to SAR 17.5 million to OI, as it no longer had the intention to hold these investments for the purpose of selling in the short term. The Group has the intention and ability to hold these reclassified investments for the foreseeable future or until maturity. Had the reclassification not been made, there would have been no significant impact on the interim condensed consolidated statement of income as the fair value approximates the carrying value at June 30, 2013. The carrying value of these investments as at June 30, 2013 amounted to SAR 0.5 million (December 31, 2012: SAR 9.8 million and June 30, 2012: SAR 17.5 million).

6. LOANS AND ADVANCES, NET

	June 30, 2013 (Un-audited)	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
Consumer loans	**6,804,126**	5,176,167	4,464,423
Commercial loans and overdrafts	**45,412,548**	40,245,828	37,536,185
Credit cards	**251,584**	235,638	235,975
Performing loans and advances	**52,468,258**	45,657,633	42,236,583
Non-performing loans and advances	**746,301**	722,115	745,120
Gross loans and advances	**53,214,559**	46,379,748	42,981,703
Allowance for impairment of credit losses	**(1,197,707)**	(1,103,549)	(1,062,015)
Loans and advances, net	**52,016,852**	45,276,199	41,919,688

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six month period ended June 30, 2013
Amounts in SAR'000

7. CUSTOMERS' DEPOSITS

	June 30, 2013 (Un-audited)	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
Time	**36,317,377**	30,129,109	28,359,588
Demand	**23,724,895**	22,698,615	20,232,750
Saving	**427,992**	411,420	403,285
Other	**785,495**	674,528	625,287
Total	**61,255,759**	53,913,672	49,620,910

8. DERIVATIVES

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	June 30, 2013 (Un-audited)			*December 31, 2012 (Audited)*			*June 30, 2012 (Un-audited)*		
Derivative financial instruments	***Positive fair value***	***Negative fair value***	***Notional amount***	*Positive fair value*	*Negative fair value*	*Notional amount*	*Positive fair value*	*Negative fair value*	*Notional amount*
Held for trading:									
Commission rate swaps	**144,926**	**84,526**	**23,035,146**	132,136	105,144	18,682,591	161,906	141,035	17,188,789
foreign exchange and commodity Forward contracts	**163,048**	**64,551**	**16,109,038**	99,614	97,450	21,742,440	157,019	127,456	31,200,079
Currency and commodity options	**45,243**	**45,243**	**30,409,337**	21,722	21,501	21,556,764	4,983	4,983	30,025,663
Forward rate agreement	**137**	**-**	**200,000**	19	-	200,000	88	-	600,000
Commission rate options	**17**	**17**	**1,219,279**	33	33	1,219,279	118	118	1,219,279
Held as fair value hedges:									
Commission rate swaps	**-**	**8,423**	**425,753**	-	22,717	651,835	-	25,778	936,452
Held as cash flow hedges:									
Commission rate swaps	**-**	**3,235**	**350,000**	-	6,355	350,000	-	9,579	350,000
Total	**353,371**	**205,995**	**71,748,553**	253,524	253,200	64,402,909	324,114	308,949	81,520,262

Amounts in SAR'000

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

The Group's credit related commitments and contingencies are as follows:

	June 30, 2013 (Un-audited)	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
Letters of guarantee	**16,821,708**	15,470,871	14,634,331
Letters of credit	**6,551,318**	6,303,340	4,768,647
Acceptances	**2,600,538**	2,271,881	2,341,679
Irrevocable commitments to extend credit	**1,733,583**	1,203,686	819,100
Total	**27,707,147**	25,249,778	22,563,757

10. CASH AND CASH EQUIVALENTS

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

	June 30, 2013 (Un-audited)	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
Cash and balances with SAMA excluding statutory deposits	**2,799,166**	6,955,327	4,038,302
Due from banks and other financial institutions maturing within ninety days of acquisition date	**831,747**	840,717	715,661
Total	**3,630,913**	7,796,044	4,753,963

11. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision makers in order to allocate resources and to assess performance. During the period, the Group's management made a decision to split the activities of Treasury segment to "Treasury" representing the core treasury results and balances and "Others" to include the group-wide assets and liabilities management. The decision resulted in an improved internal reporting on the Group's operating segments. Transactions between reportable segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between reportable segments, resulting in funding cost transfers. Commission is charged to reportable segments based on a pool rate, which approximates the marginal cost of funds. Following are the reportable business segments of the Group:

Personal Banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking center. The Group accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Corporate Banking

The corporate banking group offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans, trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six month period ended June 30, 2013
Amounts in SAR ’000

11. OPERATING SEGMENTS *(Continued)*

Treasury

Treasury transacts mainly in money market, foreign exchange, interest rate and other derivatives for corporate and institutional customers as well as for the Group’s own benefit. It is also responsible for managing the Group’s investment portfolio.

Investment banking and investment services

The investment banking and investment services group offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Others

Others include the group-wide assets and liabilities management of the Group's operations other than the treasury's core activities, maintaining group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing ("FTPs") based on the Group's methodology as approved by ALCO, the unallocated income and expenses relating to Head Office and other departments and the unallocated assets and liabilities.

a) The following is an analysis of the Group's assets, revenue and results by operating segments for the periods ended June 30, 2013 and 2012 (Un-audited).

2013	***Personal banking***	***Corporate banking***	***Treasury***	***Investment banking and Investment services***	***Others***	***Total***
Total assets	**8,146,875**	**44,384,060**	**19,120,339**	**491,677**	**4,291,746**	**76,434,697**
Total liabilities	**17,870,017**	**32,832,048**	**2,030,768**	**15,492**	**15,097,347**	**67,845,672**
Total operating income, net	**349,626**	**880,814**	**129,723**	**29,717**	**(112,299)**	**1,277,581**
Total operating expenses (without impairment charges for credit losses)	**244,926**	**134,981**	**33,755**	**21,370**	**-**	**435,032**
Impairment charges net of recoveries	**5,718**	**116,121**	**-**	**-**	**-**	**121,839**
Net operating income for the period	**98,982**	**629,712**	**95,968**	**8,347**	**(112,299)**	**720,710**

2012	*Personal banking*	*Corporate banking*	*Treasury*	*Investment banking and Investment services*	*Others*	*Total*
Total assets	5,690,582	36,249,166	15,185,568	474,402	4,030,847	61,630,565
Total liabilities	16,747,715	24,490,066	970,506	14,302	11,741,838	53,964,427
Total operating income, net	320,337	752,954	109,926	45,543	(133,911)	1,094,849
Total operating expenses (without impairment charges for credit losses)	230,966	121,320	42,431	28,185	-	422,902
Impairment charges net of recoveries	15,939	42,406	-	-	-	58,345
Investment impairment release	-	-	(8,000)	-	-	(8,000)
Net operating income for the period	73,432	589,228	75,495	17,358	(133,911)	621,602

Amounts in SAR '000

12. ZAKAT AND INCOME TAX

During the period ended June 30, 2013, there has been no change in the status of the Bank's Zakat and income tax assessments. The Bank's position with respect to stance on these assessments, have remained same as disclosed in the annual consolidated financial statements for the year ended December 31, 2012.

13. EARNING PER SHARE

Basic and diluted earnings per share for the period ended June 30, 2013 and 2012 are calculated by dividing the net income for the period attributable to the equity shareholders by 396.9 million shares.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repacking)

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

June 30, 2013	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial instruments	**-**	**353,371**	**-**	**353,371**
Financial investments available for sale	**357,093**	**60,091**	**4,188**	**421,372**
Total	**357,093**	**413,462**	**4,188**	**774,743**
Financial Liabilities				
Derivative financial instruments	-	**205,995**	-	**205,995**
Total	-	**205,995**	-	**205,995**

December 31, 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial instruments	-	253,524	-	253,524
Financial investments available for sale	165,869	70,430	4,188	240,487
Total	165,869	323,954	4,188	494,011
Financial Liabilities				
Derivative financial instruments	-	253,200	-	253,200
Total	-	253,200	-	253,200

Amounts in SAR '000

June 30, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	324,114	-	324,114
Financial investments available for sale	288,849	287,914	4,188	580,951
Total	288,849	612,028	4,188	905,065
Financial Liabilities				
Derivative financial instruments	-	308,949	-	308,949
Total	-	308,949	-	308,949

15. CAPITAL ADEQUACY

The Group's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group'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 Group's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%. The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework. For the purposes of presentation, the RWAs, total capital and related ratios as at June 30, 2013 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios as at December 31, 2012 and June 30, 2012 are calculated under Basel II and have not been restated.

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	June 30, 2013 (Un-audited)	*December 31, 2012 (Audited)*	*June 30, 2012 (Un-audited)*
Credit Risk RWA	**68,569,375**	58,831,550	55,701,340
Operational Risk RWA	**3,602,825**	3,625,338	3,648,288
Market Risk RWA	**385,912**	738,672	276,424
Total Pillar-I RWA	**72,558,112**	63,195,560	59,626,052
Tier I Capital	**8,576,978**	7,841,197	7,027,440
Tier II Capital	**3,358,246**	3,278,204	2,409,005
Total Tier I & II Capital	**11,935,224**	11,119,401	9,436,445
Capital Adequacy Ratio %			
Tier I ratio	**11.82**	12.41	11.79
Tier I + Tier II ratio	**16.45**	17.60	15.83

16. BASEL III PILLAR 3 DISCLOSURES

Certain additional quantitative disclosures are required under Basel III Pillar 3. These disclosures will be published on the Bank's website www.shb.com.sa within 60 days after June 30, 2013 as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank. The comparative disclosures as at December 31, 2012 and June 30, 2012 are calculated under Basel II framework and have not been restated.

17. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to the current period's presentation.