

**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, 2014**

**Report on Review of Interim Condensed Consolidated Financial Statements**

To the Shareholders of Saudi Hollandi Bank  
(A Saudi Joint Stock Company)

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Hollandi Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group") as at June 30, 2014, and the related interim condensed consolidated income statement and the interim condensed consolidated statement of comprehensive income for the three and six month periods then ended, and the interim condensed consolidated statements of changes in shareholders' equity and cash flows and the notes from (1) to (16) for the six month period then ended. We have not reviewed note (17), nor the information related to "Disclosures under Basel III Framework" cross-referenced therein, which is not required to be within the scope of our review.

The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review**

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.

**Deloitte & Touche  
Bakr Abulkhair & Co.**

**Deloitte.**



**KPMG Al Fozan & Al Sadhan**

**Other Regulatory Matters**

As required by SAMA, certain capital adequacy information has been disclosed in note (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

**Deloitte & Touche  
Bakr Abulkhair & Co.  
P.O. Box 213  
Riyadh 11411  
Kingdom of Saudi Arabia**

**KPMG  
Al Fozan & Al Sadhan  
P.O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia**



**Ehsan A. Makhdom  
Certified Public Accountant  
Registration No. 358**



Ramadan 25, 1435H  
July 22, 2014



**Abdullah H. Al Fozan  
Certified Public Accountant  
Registration No. 348**



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	<i>Notes</i>	<i>June 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>June 30, 2013 (Un-audited)</i>
<b>ASSETS</b>				
Cash and balances with SAMA		6,736,811	6,662,522	5,851,061
Due from banks and other financial institutions		1,251,540	1,751,367	1,768,747
Investments, net	5	19,065,228	16,849,162	15,084,224
Loans and advances, net	6	60,447,957	53,211,260	51,574,835
Investment in an associate		10,330	17,233	18,382
Property and equipment, net		515,200	504,802	490,024
Other assets		<u>1,462,241</u>	<u>1,471,915</u>	<u>1,647,424</u>
<b>Total assets</b>		<u><b>89,489,307</b></u>	<u><b>80,468,261</b></u>	<u><b>76,434,697</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		2,034,242	2,494,278	2,030,768
Customers' deposits	7	71,157,481	61,875,449	61,255,759
Subordinated debt		4,625,000	4,625,000	2,900,000
Other liabilities		<u>1,843,325</u>	<u>2,072,106</u>	<u>1,659,145</u>
<b>Total liabilities</b>		<u><b>79,660,048</b></u>	<u><b>71,066,833</b></u>	<u><b>67,845,672</b></u>
<b>Shareholders' equity</b>				
Share capital		4,762,800	3,969,000	3,969,000
Statutory reserve		3,081,128	3,081,128	2,705,726
General reserve		130,000	130,000	130,000
Other reserves		24,474	21,690	(76)
Reserve for bonus shares		-	793,800	-
Retained earnings		1,812,558	915,348	1,772,328
Proposed gross dividends		-	468,342	-
Staff share based plan reserve		<u>18,299</u>	<u>22,120</u>	<u>12,047</u>
<b>Total shareholders' equity</b>		<u><b>9,829,259</b></u>	<u><b>9,401,428</b></u>	<u><b>8,589,025</b></u>
<b>Total liabilities and shareholders' equity</b>		<u><b>89,489,307</b></u>	<u><b>80,468,261</b></u>	<u><b>76,434,697</b></u>

  
**Mr. John Macedo**  
Chief Financial Officer

  
**Maha Al-Sudairi**  
Board Secretary &  
Chief Governance Officer

  
**Dr. Saad Al-Linder**  
Managing Director  
Saudi Hollandi Bank

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in SAR'000 (Un-audited)

	Note	For the three month period ended		For the six month period ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Special commission income		605,161	510,966	1,178,390	976,511
Special commission expense		124,527	99,185	250,998	212,806
<b>Net special commission income</b>		<b>480,634</b>	<b>411,781</b>	<b>927,392</b>	<b>763,705</b>
Fee and commission income, net		241,511	191,379	463,757	365,611
Exchange income, net		39,962	32,529	75,704	60,783
Trading income, net		44,358	57,965	78,347	87,482
Dividend income from available for sale investments		2,493	-	3,181	-
Gains on non-trading investments		2,282	-	20,014	-
<b>Total operating income</b>		<b>811,240</b>	<b>693,654</b>	<b>1,568,395</b>	<b>1,277,581</b>
Salaries and employee-related expenses		142,366	126,794	281,395	251,449
Rent and premises-related expenses		25,728	20,865	51,458	41,688
Depreciation and amortisation		26,006	24,829	51,330	49,840
Other general and administrative expenses		55,501	46,341	111,193	92,055
Impairment charge for credit losses, net		79,679	100,037	168,906	121,839
<b>Total operating expenses</b>		<b>329,280</b>	<b>318,866</b>	<b>664,282</b>	<b>556,871</b>
<b>Operating income</b>		<b>481,960</b>	<b>374,788</b>	<b>904,113</b>	<b>720,710</b>
Share in (loss) / earning of an associate		(1,715)	-	(6,903)	332
<b>Net income for the period</b>		<b>480,245</b>	<b>374,788</b>	<b>897,210</b>	<b>721,042</b>

Basic and diluted EPS

14

1.01

0.79

1.88

1.51

  
Mr. John Macedo  
Chief Financial Officer

  
Maha Al-Sudani  
Board Secretary &  
Chief Governance Officer

  
Dr. Bandar Al-Sudani  
Managing Director  
Saudi Hollandi Bank

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, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income for the period	480,245	374,788	897,210	721,042
<b>Other comprehensive income</b>				
<i>Items that can be recycled back to interim condensed consolidated income statement in future</i>				
<b>Available for sale investments:</b>				
- Net change in fair value	(7,805)	(236)	21,900	1,696
- Transferred to the interim condensed consolidated income statement	(1,833)	449	(19,116)	898
	<u>(9,638)</u>	<u>213</u>	<u>2,784</u>	<u>2,594</u>
<b>Cash flow hedges:</b>				
- Effective portion of changes in fair value recognised	-	1,650	-	3,120
<b>Total comprehensive income for the period</b>	<u>470,607</u>	<u>376,651</u>	<u>899,994</u>	<u>726,756</u>

  
Mr. John Macedo  
Chief Financial Officer

  
Maha Al-Sudairi  
Board Secretary &  
Chief Governance Officer

  
Dr. Bernd van Linder  
Managing Director  
Saudi Hollandi Bank

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,  
Amounts in SAR'000 (Un-audited)

				<u>Other reserves</u>							
	<u>Note</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General Reserve</u>	<u>Available for sale investments</u>	<u>Cash flow hedges</u>	<u>Reserve for bonus shares</u>	<u>Retained earnings</u>	<u>Proposed Gross dividends</u>	<u>Staff share based plan reserve</u>	<u>Total Shareholders' equity</u>
<b>2014</b>											
Balance at the beginning of the period		3,969,000	3,081,128	130,000	21,690	-	793,800	915,348	468,342	22,120	9,401,428
Total comprehensive income for the period		-	-	-	2,784	-	-	897,210	-	-	899,994
Bonus shares issued	14	793,800	-	-	-	-	(793,800)	-	-	-	-
Dividends paid		-	-	-	-	-	-	-	(468,342)	-	(468,342)
Staff share based plan transactions		-	-	-	-	-	-	-	-	(3,821)	(3,821)
<b>Balance at the end of the period</b>		<b>4,762,800</b>	<b>3,081,128</b>	<b>130,000</b>	<b>24,474</b>	<b>-</b>	<b>-</b>	<b>1,812,558</b>	<b>-</b>	<b>18,299</b>	<b>9,829,259</b>
<b>2013</b>											
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
Dividends paid		-	-	-	-	-	-	-	(444,528)	-	(444,528)
Staff share based plan transactions		-	-	-	-	-	-	-	-	818	818
<b>Balance at the end of the period</b>		<b>3,969,000</b>	<b>2,705,726</b>	<b>130,000</b>	<b>3,159</b>	<b>(3,235)</b>	<b>-</b>	<b>1,772,328</b>	<b>-</b>	<b>12,047</b>	<b>8,589,025</b>

  
Mr. John Macedo  
Chief Financial Officer

  
Maha Al-Sudairi  
Board Secretary &  
Chief Governance Officer

  
Managing Director  
Saudi Hollandi Bank

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,

Amounts in SAR'000 (Un-audited)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>OPERATING ACTIVITIES</b>			
Net income for the period		897,210	721,042
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(49,606)	(38,055)
Gains on non-trading investments		(20,014)	-
Gain on investments held as FVIS		(236)	-
Depreciation and amortisation		51,330	49,840
Staff share based plan expenses		6,543	4,858
Impairment charge for credit losses		168,906	121,839
Share in loss / (earning) of an associate		6,903	(332)
		<u>1,061,036</u>	<u>859,192</u>
Net (increase) /decrease in operating assets:			
Statutory deposit with SAMA		(365,405)	(444,767)
Investments held as FVIS		(712)	-
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		937,000	(937,000)
Loans and advances, net		(7,405,603)	(6,420,475)
Other assets		(187,079)	(911,390)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(460,036)	555,845
Customers' deposits		9,282,032	7,342,087
Other liabilities		(228,781)	(251,794)
Net cash from / (used in) operating activities		<u>2,632,452</u>	<u>(208,302)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturity of non-trading investments		8,823,745	2,524,232
Purchase of non-trading investments		(10,967,407)	(6,191,824)
Purchase of property and equipment		(61,728)	(51,097)
Net cash used in investing activities		<u>(2,205,390)</u>	<u>(3,718,689)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid net of Zakat and tax recovered from shareholders		(281,005)	(238,140)
Net cash used in financing activities		<u>(281,005)</u>	<u>(238,140)</u>
Net increase / (decrease) in cash and cash equivalents		146,057	(4,165,131)
Cash and cash equivalents at beginning of the period		4,373,210	7,796,044
Cash and cash equivalents at end of the period	10	<u>4,519,267</u>	<u>3,630,913</u>
Special commission received during the period		1,159,843	930,263
Special commission paid during the period		245,112	220,834
<b>Supplemental non-cash information</b>			
Net changes in fair value and transfers to interim condensed consolidated statement of comprehensive income		2,784	5,714

  
Mr. John Macedo  
Chief Financial Officer

  
Maha Al Sudairi  
Board Secretary &  
Chief Governance Officer

  
Managing Director  
Saudi Hollandi Bank

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



# Saudi Hollandi Bank

## A Saudi Joint Stock Company

---

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the six month period ended June 30, 2014

#### 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 53 branches (December 31, 2013: 48 branches and June 30, 2013: 47 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 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 established by the Bank.

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 regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. 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.

#### 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by SAMA and International Accounting Standard No. 34 – "Interim Financial Reporting" as issued by International Accounting Standards Board (IASB). 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 the full annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2013.

The preparation of 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 at the date of preparing these interim condensed consolidated financial statements. Actual results may differ from these estimates.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For the six month period ended June 30, 2014

**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, 2013.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands, except where otherwise indicated.

**3. BASIS OF CONSOLIDATION**

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies, where necessary, to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group 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.

The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate. The interim condensed consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

**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, 2013 except for the adoption of the following amendments to existing standards mentioned below which has had an insignificant effect or no financial impact on the interim condensed consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

*a) Amendments to existing standards*

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.
- IAS 32 amendment applicable from 1 January 2014 clarifies that, a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.
- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2014

Amounts in SAR'000

5. INVESTMENTS, NET

a) Investment securities are classified as follows:	June 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	June 30, 2013 <i>(Un-audited)</i>
- Available for sale (AFS)	539,594	531,595	421,371
- Other investments held at amortised cost (OI)	18,430,338	16,221,738	14,558,636
- Held to maturity (HTM)	94,348	95,829	104,217
- Held as FVIS	948	-	-
<b>Total</b>	<b>19,065,228</b>	<b>16,849,162</b>	<b>15,084,224</b>

Investments held as FVIS represent investments held for trading.

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 amounting to SAR 9.95 million (December 31, 2013: SAR 5.6 million and June 30, 2013: SAR 3 million) and shareholders' equity would have been higher by the same amount.

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

	<i>Carrying value</i>			<i>Fair value</i>		
	June 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	June 30, 2013 <i>(Un-audited)</i>	June 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	June 30, 2013 <i>(Un-audited)</i>
AFS securities reclassified	<u>147,422</u>	<u>146,482</u>	<u>145,522</u>	<u>146,843</u>	<u>142,457</u>	<u>140,052</u>

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 income statement as the fair value approximates the carrying value as at June 30, 2014. The carrying value of these investments as at June 30, 2014 amounted to SAR 0.5 million (December 31, 2013: SAR 0.5 million and June 30, 2013: SAR 0.5 million).

6. LOANS AND ADVANCES, NET

	June 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	June 30, 2013 <i>(Un-audited)</i>
Consumer loans	9,462,134	8,066,492	6,804,126
Commercial loans and overdrafts	51,180,877	45,349,320	44,970,531
Credit cards	263,669	249,392	251,584
Performing loans and advances	60,906,680	53,665,204	52,026,241
Non-performing loans and advances	756,263	738,619	746,301
Gross loans and advances	61,662,943	54,403,823	52,772,542
Allowance for impairment of credit losses	(1,214,986)	(1,192,563)	(1,197,707)
<b>Loans and advances, net</b>	<b>60,447,957</b>	<b>53,211,260</b>	<b>51,574,835</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For the six month period ended June 30, 2014  
Amounts in SAR'000

7. CUSTOMERS' DEPOSITS

	<i>June 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>June 30, 2013 (Un-audited)</i>
Time	39,665,374	35,575,566	36,317,377
Demand	29,927,049	24,951,832	23,724,895
Saving	473,392	434,877	427,992
Other	<u>1,091,666</u>	<u>913,174</u>	<u>785,495</u>
<b>Total</b>	<b><u>71,157,481</u></b>	<b><u>61,875,449</u></b>	<b><u>61,255,759</u></b>

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.

<i>Derivative financial instruments</i>	<i>June 30, 2014 (Un-audited)</i>			<i>December 31, 2013 (Audited)</i>			<i>June 30, 2013 (Un-audited)</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
<b>Held for trading:</b>									
Commission rate swaps	136,689	47,568	27,676,744	139,669	70,968	23,343,399	144,926	84,526	23,035,146
<b>Foreign exchange and commodity forward contracts</b>	14,264	40,814	24,629,720	81,976	34,313	15,641,511	163,048	64,551	16,109,038
Currency and commodity options	40,381	39,784	31,370,866	64,653	64,653	27,548,514	45,243	45,243	30,409,337
Forward rate agreements	-	-	-	44	-	200,000	137	-	200,000
Commission rate options	2	2	1,000,000	1	1	1,219,279	17	17	1,219,279
<b>Held as fair value hedges:</b>									
Commission rate swaps	-	4,217	338,099	-	5,958	375,630	-	8,423	425,753
<b>Held as cash flow hedges:</b>									
Commission rate swaps	-	-	-	-	-	-	-	3,235	350,000
<b>Total</b>	<b><u>191,336</u></b>	<b><u>132,385</u></b>	<b><u>85,015,429</u></b>	<b><u>286,343</u></b>	<b><u>175,893</u></b>	<b><u>68,328,333</u></b>	<b><u>353,371</u></b>	<b><u>205,995</u></b>	<b><u>71,748,553</u></b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2014

Amounts in SAR'000

**9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

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

	<i>June 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>June 30, 2013 (Un-audited)</i>
Letters of guarantee	21,207,456	19,512,430	16,821,708
Letters of credit	5,682,103	5,709,313	6,551,318
Acceptances	3,105,787	2,689,895	2,600,538
Irrevocable commitments to extend credit	<u>1,423,056</u>	<u>2,176,615</u>	<u>1,733,583</u>
<b>Total</b>	<b><u>31,418,402</u></b>	<b><u>30,088,253</u></b>	<b><u>27,707,147</u></b>

**10. CASH AND CASH EQUIVALENTS**

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

	<i>June 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>June 30, 2013 (Un-audited)</i>
Cash and balances with SAMA excluding statutory deposits	3,267,727	3,558,843	2,799,166
Due from banks and other financial institutions maturing within ninety days of acquisition date	<u>1,251,540</u>	<u>814,367</u>	<u>831,747</u>
<b>Total</b>	<b><u>4,519,267</u></b>	<b><u>4,373,210</u></b>	<b><u>3,630,913</u></b>

**11. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability

**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 or identical instrument that an entity can access at the measurement date;

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For the six month period ended June 30, 2014  
Amounts in SAR '000

11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

<u>June 30, 2014 (un-audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Derivative financial instruments	-	191,336	-	191,336
Financial assets designated at FVIS	948	-	-	948
Financial investments available for sale	326,819	209,337	3,438	539,594
<b>Total</b>	<b>327,767</b>	<b>400,673</b>	<b>3,438</b>	<b>731,878</b>
<b>Financial Liabilities</b>				
Derivative financial instruments	-	132,385	-	132,385
<b>Total</b>	<b>-</b>	<b>132,385</b>	<b>-</b>	<b>132,385</b>
<u>December 31, 2013 (audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Derivative financial instruments	-	286,343	-	286,343
Financial investments available for sale	308,307	219,850	3,438	531,595
<b>Total</b>	<b>308,307</b>	<b>506,193</b>	<b>3,438</b>	<b>817,938</b>
<b>Financial Liabilities</b>				
Derivative financial instruments	-	175,893	-	175,893
<b>Total</b>	<b>-</b>	<b>175,893</b>	<b>-</b>	<b>175,893</b>
<u>June 30, 2013 (un-audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Derivative financial instruments	-	353,371	-	353,371
Financial investments available for sale	357,093	60,091	4,188	421,372
<b>Total</b>	<b>357,093</b>	<b>413,462</b>	<b>4,188</b>	<b>774,743</b>
<b>Financial Liabilities</b>				
Derivative financial instruments	-	205,995	-	205,995
<b>Total</b>	<b>-</b>	<b>205,995</b>	<b>-</b>	<b>205,995</b>

The fair values of on-statement of financial position financial instruments, except for OI and HTM investments which are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, subordinated debts, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated 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.

12. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Senior Management Committee ("The Committee") responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the Committee, is measured in a manner consistent with that in the interim condensed consolidated income statement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2014

Amounts in SAR '000

12. OPERATING SEGMENTS (*Continued*)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2013. Following are the reportable business segments of the Group:

**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 and 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.

**Personal Banking**

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. 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.

**Treasury**

Treasury transacts mainly in money market, foreign exchange, commission 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 assets, liabilities and results of activities undertaken for (a) group-wide assets and liabilities management of Group's operations other than core treasury activities, (b) maintaining group wide liquidity and (c) managing its consolidated financial position. It also includes transfer pricing 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, 2014 and 2013 (Un-audited).

<u>2014</u>	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Treasury</i>	<i>Investment banking and Investment services</i>	<i>Others</i>	<i>Total</i>
Total assets	49,332,400	11,330,661	22,894,079	512,442	5,419,725	89,489,307
Total liabilities	37,746,284	20,716,197	2,034,242	14,827	19,148,498	79,660,048
Total operating income, net	875,202	432,443	288,372	38,304	(65,926)	1,568,395
Total operating expenses (without impairment charges for credit losses)	171,273	261,545	40,984	21,574	-	495,376
Impairment charges net of recoveries	143,464	25,442	-	-	-	168,906
Net operating income for the period	560,465	145,456	247,388	16,730	(65,926)	904,113



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2014

Amounts in SAR '000

12. OPERATING SEGMENTS (Continued)

<u>2013</u>	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Treasury</i>	<i>Investment banking and Investment services</i>	<i>Others</i>	<i>Total</i>
Total assets	43,942,043	8,146,875	19,120,339	491,677	4,733,763	76,434,697
Total liabilities	32,832,048	17,870,017	2,030,768	15,492	15,097,347	67,845,672
Total operating income, net	718,971	347,486	214,610	29,717	(33,203)	1,277,581
Total operating expenses (without impairment charges for credit losses)	152,265	224,382	37,015	21,370	-	435,032
Impairment charges net of recoveries	116,121	5,718	-	-	-	121,839
Net operating income for the period	450,585	117,386	177,595	8,347	(33,203)	720,710

13. ZAKAT AND INCOME TAX

The Bank has filed its Zakat and tax returns for the years up to and including the financial year 2013 with the Department of Zakat and Income Tax (the "DZIT"). Zakat and tax returns have been finalized up to and including financial year 2004. The Bank received Zakat and tax assessments from the DZIT in respect of the years 2005 to 2009 and a partial assessment for year 2010 raising additional Zakat and tax liabilities. The Bank has formally contested the assessments and is awaiting response from the DZIT. The basis for the additional liability, in certain cases, is being contested by all the banks in the Kingdom of the Saudi Arabia.

The Management believes that the ultimate outcome of the appeal filed and actions taken by the Bank in conjunction with other banks in the Kingdom of Saudi Arabia cannot be determined reliably at this stage.

14. BONUS SHARES ISSUED AND EARNINGS PER SHARE (EPS)

The Board of Directors proposed a bonus shares issue of SAR 793.8 million shares of SR 10 each, which was approved in the shareholders' extra ordinary general assembly meeting held on March 18, 2014.

Basic and diluted earnings per share for the periods ended June 30, 2014 and 2013 are calculated by dividing the net income for the period attributable to the equity shareholders by 476.28 million shares to give a retrospective effect of change in the number of shares increased as a result of the bonus shares issued.

15. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its interim condensed consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2014

Amounts in SAR '000

15. CAPITAL ADEQUACY (Continued)

The following table summarises the Bank's Pillar-I RWA, Tier I & Tier II capital and capital adequacy ratios.

	<i>June 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>June 30, 2013 (Un-audited)</i>
Credit Risk RWA	79,334,798	71,695,801	68,569,375
Operational Risk RWA	3,865,825	3,653,600	3,602,825
Market Risk RWA	<u>320,676</u>	<u>440,854</u>	<u>385,912</u>
<b>Total Pillar-I RWA</b>	<b><u>83,521,299</u></b>	<b><u>75,790,255</u></b>	<b><u>72,558,112</u></b>
Tier I Capital	9,810,960	8,910,966	8,576,978
Tier II Capital	<u>4,970,343</u>	<u>4,970,076</u>	<u>3,358,246</u>
<b>Total Tier I &amp; II Capital</b>	<b><u>14,781,303</u></b>	<b><u>13,881,042</u></b>	<b><u>11,935,224</u></b>
Capital Adequacy Ratio %			
Tier I ratio	11.75	11.76	11.82
Tier I + Tier II ratio	17.70	18.32	16.45

16. COMPARATIVE FIGURES

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

17. DISCLOSURES UNDER BASEL III FRAMEWORK

Certain disclosures on the Bank's capital structure are required to be published on the Bank's website. These disclosures will be published on the Bank's website [www.shb.com.sa](http://www.shb.com.sa) as required by SAMA. Such disclosures are not subject to review by the external auditors of the Bank.