

Saudi Hollandi Bank  **البنك السعودي الهولندي**

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

(Un-audited)

**FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 2013**

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 March 31, 2013, and the related interim condensed consolidated statements of income, comprehensive income, changes in shareholders' equity, cash flows and the notes from (1) to (17) for the three month period then ended. 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 (16) of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (16) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	<i>Notes</i>	<i>March 31, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>March 31, 2012 (Un-audited)</i>
ASSETS				
Cash and balances with SAMA		6,119,995	9,562,455	6,020,655
Due from banks and other financial institutions		1,489,877	840,717	619,256
Investments, net	5	14,709,869	11,365,576	11,565,037
Loans and advances, net	6	48,683,959	45,276,199	39,743,569
Investment in an associate	7	18,382	18,050	17,750
Property and equipment, net		484,454	488,767	488,809
Other assets		1,146,581	953,749	1,146,197
Total assets		72,653,117	68,505,513	59,601,273
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		2,737,266	1,474,923	1,536,129
Customers' deposits	8	56,604,226	53,913,672	47,316,210
Subordinated debt		2,900,000	2,900,000	1,500,000
Other liabilities		2,201,993	1,910,939	1,917,466
Total liabilities		64,443,485	60,199,534	52,269,805
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		(1,939)	(5,790)	(11,100)
Retained earnings		1,397,540	1,051,286	846,150
Proposed dividend		-	444,528	-
Staff share based plan reserve		9,305	11,229	4,938
Total shareholders' equity		8,209,632	8,305,979	7,331,468
Total liabilities and shareholders' equity		72,653,117	68,505,513	59,601,273

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the three month period ended March 31, 2013 and 2012

Amounts in SAR'000 (Un-audited)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Special commission income		465,545	400,893
Special commission expense		113,621	78,893
Net special commission income		351,924	322,000
Fee and commission income, net		174,232	152,447
Exchange income, net		28,254	31,227
Trading income, net		29,517	29,631
Gains on non-trading investments, net		-	4,642
Total operating income		583,927	539,947
Salaries and employee related expenses		124,655	117,675
Rent and premises related expenses		20,823	18,962
Depreciation and amortisation		25,011	28,006
Other general and administrative expenses		45,714	49,001
Impairment charge for credit losses, net		21,802	44,230
Impairment release of investments		-	(8,000)
Total operating expenses		238,005	249,874
Operating income		345,922	290,073
Share in earnings of an associate		332	-
Net income for the period		346,254	290,073
Basic earnings per share (expressed in SAR per share)	14	0.87	0.73

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three month period ended March 31, 2013 and 2012
Amounts in SAR'000 (Un-audited)

	<u>2013</u>	<u>2012</u>
Net income for the period	346,254	290,073
Other comprehensive income		
Available for sale investments		
- Net change in fair value	1,932	6,911
- Transferred to interim condensed consolidated statement of income	449	1,615
	<u>2,381</u>	<u>8,526</u>
Cash flow hedges		
- Effective portion of changes in fair value recognised	1,470	614
	<u>1,470</u>	<u>614</u>
Total comprehensive income for the period	<u><u>350,105</u></u>	<u><u>299,213</u></u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY

For the three month period ended March 31, 2013 and 2012

Amounts in SAR'000 (Un-audited)

				<u>Other reserves</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 dividend</u>	<u>Staff share based plan reserve</u>	<u>Total Shareholders' equity</u>	
<u>2013</u>											
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	-	-	-	2,381	1,470	-	346,254	-	-	350,105	
Dividend paid	-	-	-	-	-	-	-	(444,528)	-	(444,528)	
Staff share based transactions	-	-	-	-	-	-	-	-	(1,924)	(1,924)	
Balance at the end of the period	<u>3,969,000</u>	<u>2,705,726</u>	<u>130,000</u>	<u>2,946</u>	<u>(4,885)</u>	<u>-</u>	<u>1,397,540</u>	<u>-</u>	<u>9,305</u>	<u>8,209,632</u>	
<u>2012</u>											
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	-	-	-	8,526	614	-	290,073	-	-	299,213	
Bonus shares issued	661,500	-	-	-	-	(661,500)	-	-	-	-	
Dividend paid	-	-	-	-	-	-	-	(377,055)	-	(377,055)	
Staff share based transactions	-	-	-	-	-	-	-	-	988	988	
Balance at the end of the period	<u>3,969,000</u>	<u>2,392,480</u>	<u>130,000</u>	<u>160</u>	<u>(11,260)</u>	<u>-</u>	<u>846,150</u>	<u>-</u>	<u>4,938</u>	<u>7,331,468</u>	

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended March 31, 2013 and 2012

Amounts in SAR '000 (Un-audited)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES			
Net income for the period		346,254	290,073
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		(17,767)	(9,338)
Gains on non-trading investments, net		-	(4,642)
Depreciation and amortisation		25,011	28,006
Staff share based plan expenses		2,061	988
Impairment charge for credit losses		21,802	44,230
Share in earnings of an associate		(332)	-
Impairment release of investments		-	(8,000)
		<u>377,029</u>	<u>341,317</u>
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA		(95,589)	(293,053)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(937,000)	-
Investments held at FVIS (including trading investment)		-	11,110
Loans and advances, net		(3,429,562)	(2,378,201)
Other assets		(399,354)	(76,218)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,262,343	(74,962)
Customers' deposits		2,690,554	2,627,474
Other liabilities		291,054	(123,995)
Net cash (used in) / from operating activities		<u>(240,525)</u>	<u>33,472</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments		464,551	3,583,612
Purchase of non-trading investments		(3,791,077)	(3,626,103)
Purchase of property and equipment		(20,698)	(27,316)
Net cash used in investing activities		<u>(3,347,224)</u>	<u>(69,807)</u>
FINANCING ACTIVITIES			
Dividend paid net of Zakat and tax recovered from shareholders		(238,140)	(198,450)
Net cash used in financing activities		<u>(238,140)</u>	<u>(198,450)</u>
Net decrease in cash and cash equivalents		<u>(3,825,889)</u>	<u>(234,785)</u>
Cash and cash equivalents at beginning of the period		<u>7,796,044</u>	<u>4,323,141</u>
Cash and cash equivalents at end of the period	11	<u>3,970,155</u>	<u>4,088,356</u>
Special commission received during the period		429,078	359,894
Special commission paid during the period		91,323	44,906
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated statement of comprehensive income		<u>3,851</u>	<u>9,140</u>

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 three month period ended March 31, 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 46 branches (December 31, 2012: 45 branches and March 31, 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2013

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

These interim condensed consolidated financial statements comprise the interim condensed financial statements of the Bank and its subsidiaries. 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 entities which are controlled by the Bank. The Bank controls an entity (the "investee") over which the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended March 31, 2013

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 three month period ended March 31, 2013
Amounts in SAR'000

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	March 31, 2013 (Un-audited)	December 31, 2012 (Audited)	March 31, 2012 (Un-audited)
Available for sale (AFS)	226,037	227,486	576,446
Other investments held at amortised cost (OI)	14,379,427	11,032,635	10,788,622
Held to maturity (HTM)	104,405	105,455	199,969
Total	14,709,869	11,365,576	11,565,037

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 losses amounting to SAR 0.7 million (December 31, 2012: SAR 2 million and March 31, 2012: SAR 25 million) and shareholders' equity would have been lower by the same amount.

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

	<u>Carrying value</u>				<u>Fair value</u>	
	March 31, 2013 (Un-audited)	December 31, 2012 (Audited)	March 31, 2012 (Un-audited)	March 31, 2013 (Un-audited)	December 31, 2012 (Audited)	March 31, 2012 (Un-audited)
AFS securities reclassified	145,042	144,590	416,403	137,609	135,172	400,799

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 impact on the interim condensed consolidated statement of income as the fair value approximates the carrying value as at March 31, 2013. The carrying value of these investments as at March 31, 2013 amounted to SAR 9.8 million (December 31, 2012: SAR 9.8 million and March 31, 2012: SAR 17.5 million).

6. LOANS AND ADVANCES, NET

	March 31, 2013 (Un-audited)	December 31, 2012 (Audited)	March 31, 2012 (Un-audited)
Consumer loans	5,937,482	5,176,167	4,152,926
Commercial loans and overdrafts	42,921,743	40,245,828	35,680,924
Credit cards	236,147	235,638	232,821
Performing loans and advances	49,095,372	45,657,633	40,066,671
Non-performing loans and advances	706,377	722,115	731,624
Gross loans and advances	49,801,749	46,379,748	40,798,295
Allowance for impairment of credit losses	(1,117,790)	(1,103,549)	(1,054,726)
Loans and advances, net	48,683,959	45,276,199	39,743,569

Saudi Hollandi Bank
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2013

Amounts in SAR'000

7. INVESTMENT IN AN ASSOCIATE

	<i>March 31, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>March 31, 2012 (Un-audited)</i>
Balance at beginning of the period	18,050	17,750	17,750
Share in earning	332	300	-
Balance at end of the period	<u>18,382</u>	<u>18,050</u>	<u>17,750</u>

Investment in an associate represents a 20% shareholding in Wataniya Insurance Company formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. 26/30 dated 16 Rabi' II 1430H (corresponding to April 12, 2009).

8. CUSTOMERS' DEPOSITS

	<i>March 31, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>March 31, 2012 (Un-audited)</i>
Time	31,497,910	30,129,109	25,331,006
Demand	23,993,691	22,698,615	20,991,314
Saving	411,642	411,420	391,574
Other	700,983	674,528	602,316
Total	<u>56,604,226</u>	<u>53,913,672</u>	<u>47,316,210</u>

9. DERIVATIVES

The table below sets out the positive and negative fair values and notional amounts of derivative financial instruments. 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>March 31, 2013 (Un-audited)</i>			<i>December 31, 2012 (Audited)</i>			<i>March 31, 2012 (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>
Held for trading:									
Commission rate swaps	134,847	100,503	19,572,775	132,136	105,144	18,682,591	161,938	181,138	15,450,085
Forward foreign exchange contracts	71,894	61,485	21,430,196	99,614	97,450	21,742,440	232,170	201,670	31,718,363
Currency and commodity options	34,178	34,178	29,636,246	21,722	21,501	21,556,764	43,822	43,822	29,708,425
Forward rate agreements	106	-	200,000	19	-	200,000	24	10	400,000
Commission rate options	18	18	1,219,279	33	33	1,219,279	66	66	219,279
Held as fair value hedges:									
Commission rate swaps	-	20,829	638,664	-	22,717	651,835	-	23,759	960,694
Held as cash flow hedges:									
Commission rate swaps	-	4,885	350,000	-	6,355	350,000	-	11,260	350,000
Total	<u>241,043</u>	<u>221,898</u>	<u>73,047,160</u>	<u>253,524</u>	<u>253,200</u>	<u>64,402,909</u>	<u>438,020</u>	<u>461,725</u>	<u>78,806,846</u>

Saudi Hollandi Bank
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended March 31, 2013
Amounts in SAR'000

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>March 31, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>March 31, 2012 (Un-audited)</i>
Letters of credit	6,791,623	6,303,340	5,500,743
Letters of guarantee	16,328,339	15,470,871	12,899,747
Acceptances	2,450,087	2,271,881	2,259,661
Irrevocable commitments to extend credit	1,276,456	1,203,686	958,913
Total	26,846,505	25,249,778	21,619,064

11. CASH AND CASH EQUIVALENTS

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

	<i>March 31, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>March 31, 2012 (Un-audited)</i>
Cash and balances with SAMA excluding statutory deposits	3,417,278	6,955,327	3,469,100
Due from banks and other financial institutions maturing within ninety days of acquisition date	552,877	840,717	619,256
Total	3,970,155	7,796,044	4,088,356

12. 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 results 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.

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12. 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 ("FTP") 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 March 31, 2013 and 2012 (Un-audited).

<u>2013</u>	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Treasury</u>	<u>Investment banking and Investment services</u>	<u>Others</u>	<u>Total</u>
Total assets	6,975,325	41,828,155	19,075,110	495,741	4,278,786	72,653,117
Total liabilities	18,316,341	27,834,401	2,737,266	25,622	15,529,855	64,443,485
Total operating income, net	165,140	413,064	57,149	12,639	(64,065)	583,927
Total operating expenses (without impairment charges for credit losses)	122,939	66,305	16,310	10,649	-	216,203
Impairment charges net of recoveries	4,287	17,515	-	-	-	21,802
Net operating income for the period	37,914	329,244	40,839	1,990	(64,065)	345,922

<u>2012</u>	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Treasury</u>	<u>Investment banking and Investment services</u>	<u>Others</u>	<u>Total</u>
Total assets	5,397,586	34,375,120	14,994,024	474,752	4,359,791	59,601,273
Total liabilities	16,771,144	23,571,742	1,536,129	25,340	10,365,450	52,269,805
Total operating income, net	156,835	375,897	50,823	22,716	(66,324)	539,947
Total operating expenses (without impairment charges for credit losses)	116,997	64,019	16,355	16,273	-	213,644
Impairment charges net of recoveries	14,717	29,513	-	-	-	44,230
Investment impairment release	-	-	(8,000)	-	-	(8,000)
Net operating income for the period	25,121	282,365	42,468	6,443	(66,324)	290,073

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13. ZAKAT AND INCOME TAX

The Bank has filed its Zakat and income tax returns for the years up to and including the financial year 2011 with the Department of Zakat and Income Tax (the "DZIT"). During 2011, the Bank received Zakat and tax assessments from the DZIT in respect of the years from 2004 to 2006 and a partial assessment for the year 2010 raising additional Zakat and tax liabilities.

The Bank has formally contested these assessments and is awaiting a response from DZIT. Management believes that the ultimate outcome of the actions taken by the Bank alone and in conjunction with other banks in the Kingdom of Saudi Arabia, who have received similar additional assessments from DZIT, cannot be determined reliably at this stage and accordingly the Bank has not made any provision for the additional assessed Zakat and income tax liabilities.

14. EARNINGS PER SHARE

Basic earnings per share for the period ended March 31, 2013 and 2012 are calculated by dividing the net income for the period attributable to the equity shareholders by 396.9 million shares.

15. 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.

<u>March 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	241,043	-	241,043
Financial investments available for sale	155,364	66,485	4,188	226,037
Total	<u>155,364</u>	<u>307,528</u>	<u>4,188</u>	<u>467,080</u>
Financial Liabilities				
Derivative financial instruments	-	221,898	-	221,898
Total	<u>-</u>	<u>221,898</u>	<u>-</u>	<u>221,898</u>
 <u>December 31, 2012</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Financial assets				
Derivative financial instruments	-	253,524	-	253,524
Financial investments available for sale	152,868	70,430	4,188	227,486
Total	<u>152,868</u>	<u>323,954</u>	<u>4,188</u>	<u>481,010</u>
Financial Liabilities				
Derivative financial instruments	-	253,200	-	253,200
Total	<u>-</u>	<u>253,200</u>	<u>-</u>	<u>253,200</u>

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<u>March 31, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	438,020	-	438,020
Financial investments available for sale	352,674	219,536	4,236	576,446
Total	<u>352,674</u>	<u>657,556</u>	<u>4,236</u>	<u>1,014,466</u>
Financial Liabilities				
Derivative financial instruments	-	461,725	-	461,725
Total	<u>-</u>	<u>461,725</u>	<u>-</u>	<u>461,725</u>

16. CAPITAL ADEQUACY

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, amongst other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by SAMA in supervising the Bank.

The Group has implemented the capital reforms under Basel III as issued by SAMA and are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios are calculated and presented using the methodologies defined under the Basel III framework.

The comparative balances and ratios as at December 31, 2012 and March 31, 2012 are calculated under Basel II framework and have not been restated.

	<u>March 31, 2013 (Un-audited)</u>	<u>December 31, 2012 (Audited)</u>	<u>March 31, 2012 (Un-audited)</u>
Credit Risk RWA	64,162,362	58,831,550	53,601,932
Operational Risk RWA	3,611,350	3,625,338	3,685,350
Market Risk RWA	384,314	738,672	257,940
Total Pillar-I RWA	<u>68,158,026</u>	<u>63,195,560</u>	<u>57,545,222</u>
Tier I Capital	8,200,327	7,841,197	7,027,583
Tier II Capital	3,303,508	3,278,204	2,081,726
Total Tier I & II Capital	<u>11,503,835</u>	<u>11,119,401</u>	<u>9,109,309</u>
Capital Adequacy Ratio %			
Tier I ratio	12.03	12.41	12.21
Tier I + Tier II ratio	16.88	17.60	15.83

17. COMPARATIVE FIGURES

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