

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

(Un-audited)

**FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 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 March 31, 2014, and the related interim condensed consolidated income statement and the interim condensed consolidated statements of comprehensive income, changes in shareholders’ equity and cash flows and the notes from (1) to (17) for the three month period then ended. We have not reviewed note (16), nor the information related to “Basel III – Capital Structure” 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.

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.

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Jumada II 20,1435H
April 20, 2014

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, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>March 31, 2013 (Un-audited)</i>
ASSETS				
Cash and balances with SAMA		5,619,785	6,662,522	6,119,995
Due from banks and other financial institutions		1,240,693	1,751,367	1,489,877
Investments, net	5	19,249,118	16,849,162	14,722,898
Loans and advances, net	6	57,008,467	53,211,260	48,241,021
Investment in an associate		12,045	17,233	18,382
Property and equipment, net		507,376	504,802	484,454
Other assets		1,385,032	1,471,915	1,576,490
Total assets		85,022,516	80,468,261	72,653,117
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		3,281,154	2,494,278	2,737,266
Customers' deposits	7	65,799,311	61,875,449	56,604,226
Subordinated debt		4,625,000	4,625,000	2,900,000
Other liabilities		1,963,072	2,072,106	2,201,993
Total liabilities		75,668,537	71,066,833	64,443,485
Shareholders' equity				
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		34,112	21,690	(1,939)
Reserve for bonus shares	13	-	793,800	-
Retained earnings		1,332,313	915,348	1,397,540
Proposed gross dividends		-	468,342	-
Staff share based plan reserve		13,626	22,120	9,305
Total shareholders' equity		9,353,979	9,401,428	8,209,632
Total liabilities and shareholders' equity		85,022,516	80,468,261	72,653,117


Mr. John Macedo
 Chief Financial Officer


Maha Al-Sudani
 Board Secretary &
 Chief Governance Officer


Dr. Bernd von Lintow
 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

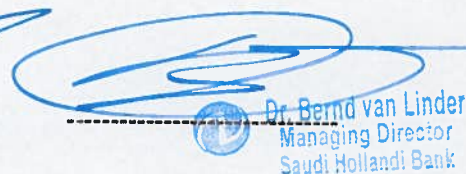
For the three month period ended March 31,

Amounts in SAR'000 (Un-audited)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Special commission income		573,229	465,545
Special commission expense		126,471	113,621
Net special commission income		446,758	351,924
Fee and commission income, net		222,246	174,232
Exchange income, net		35,742	28,254
Trading income, net		33,989	29,517
Dividend income from available for sale investments		688	-
Gains on non-trading investments, net		17,732	-
Total operating income		757,155	583,927
Salaries and employee-related expenses		139,029	124,655
Rent and premises-related expenses		25,730	20,823
Depreciation and amortisation		25,324	25,011
Other general and administrative expenses		55,692	45,714
Impairment charge for credit losses, net		89,227	21,802
Total operating expenses		335,002	238,005
Operating income		422,153	345,922
Share in (loss) / earning of an associate		(5,188)	332
Net income for the period		416,965	346,254
Basic and diluted EPS	13	0.88	0.73


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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME


For the three month period ended March 31,

Amounts in SAR'000 (Un-audited)

	<u>2014</u>	<u>2013</u>
Net income for the period	416,965	346,254
Other comprehensive income		
<i>Items that can be recycled back to interim condensed consolidated income statement in future</i>		
Available for sale investments:		
- Net change in fair value	29,705	1,932
- Transferred to the interim condensed consolidated income statement	(17,283)	449
	12,422	2,381
Cash flow hedges:		
- Effective portion of changes in fair value recognised	-	1,470
Total other comprehensive income	12,422	3,851
Total comprehensive income for the period	429,387	350,105


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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,

Amounts in SAR'000 (Un-audited)

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>General Reserve</i>	<i>Other reserves</i>		<i>Reserve for bonus shares</i>	<i>Retained earnings</i>	<i>Proposed gross dividends</i>	<i>Staff share based plan reserve</i>	<i>Total Shareholders' equity</i>
					<i>Available for sale investments</i>	<i>Cash flow hedges</i>					
2014											
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		-	-	-	12,422	-	-	416,965	-	-	429,387
Bonus shares issued	13	793,800	-	-	-	-	(793,800)	-	-	-	-
Dividends paid		-	-	-	-	-	-	(468,342)	-	-	(468,342)
Staff share based plan transactions		-	-	-	-	-	-	-	-	(8,494)	(8,494)
Balance at the end of the period		4,762,800	3,081,128	130,000	34,112	-	-	1,332,313	-	13,626	9,353,979
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		-	-	-	2,381	1,470	-	346,254	-	-	350,105
Dividends paid		-	-	-	-	-	-	(444,528)	-	-	(444,528)
Staff share based plan transactions		-	-	-	-	-	-	-	-	(1,924)	(1,924)
Balance at the end of the period		3,969,000	2,705,726	130,000	2,946	(4,885)	-	1,397,540	-	9,305	8,209,632


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Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended March 31,

Amounts in SAR'000 (Un-audited)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES			
Net income for the period		416,965	346,254
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		(22,918)	(17,767)
Gains on non-trading investments		(17,732)	-
Depreciation and amortisation		25,324	25,011
Staff share based plan transactions		3,271	2,061
Impairment charge for credit losses		89,227	21,802
Share in loss / (earning) of an associate		5,188	(332)
		<u>499,325</u>	<u>377,029</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(91,850)	(95,589)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		937,000	(937,000)
Loans and advances, net		(3,886,434)	(3,434,862)
Other assets		(99,797)	(381,025)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		786,876	1,262,343
Customers' deposits		3,923,862	2,690,554
Other liabilities		(109,034)	291,054
Net cash from / (used in) operating activities		<u>1,959,948</u>	<u>(227,496)</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		5,734,024	464,551
Purchase of non-trading investments		(8,093,330)	(3,804,106)
Purchase of property and equipment		(27,898)	(20,698)
Net cash used in investing activities		<u>(2,387,204)</u>	<u>(3,360,253)</u>
FINANCING ACTIVITIES			
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 decrease in cash and cash equivalents		(708,261)	(3,825,889)
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>3,664,949</u>	<u>3,970,155</u>
Special commission received during the period		545,348	429,078
Special commission paid during the period		<u>98,034</u>	<u>91,323</u>

Supplemental non-cash information

Net changes in fair value and transfers to interim condensed consolidated statement of comprehensive income

12,422 3,851


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Saudi Hollandi Bank

A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 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 50 branches (December 31, 2013: 48 branches and March 31, 2013: 46 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 the Saudi Arabian Monetary Agency (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. Actual results may differ from these estimates.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 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 Bank.

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 the 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. 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 three month period ended March 31, 2014

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	March 31, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	March 31, 2013 <i>(Un-audited)</i>
Available for sale (AFS)	516,944	531,595	239,066
Other investments held at amortised cost (OI)	18,637,513	16,221,738	14,379,427
Held to maturity (HTM)	94,661	95,829	104,405
Total	19,249,118	16,849,162	14,722,898

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 7.2 million (December 31, 2013: Gains of SAR 5.6 million and March 31, 2013: Losses of SAR 0.7 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.

	<u>Carrying value</u>			<u>Fair value</u>		
	March 31, 2014 <u>(Un-audited)</u>	December 31, 2013 <u>(Audited)</u>	March 31, 2013 <u>(Un-audited)</u>	March 31, 2014 <u>(Un-audited)</u>	December 31, 2013 <u>(Audited)</u>	March 31, 2013 <u>(Un-audited)</u>
AFS securities reclassified	<u>146,941</u>	<u>146,482</u>	<u>145,042</u>	<u>144,147</u>	<u>142,457</u>	<u>137,609</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 March 31, 2014. The carrying value of these investments as at March 31, 2014 amounted to SAR 0.5 million (December 31, 2013: SAR 0.5 million and March 31, 2013: SAR 9.8 million).

6. LOANS AND ADVANCES, NET

	March 31, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	March 31, 2013 <i>(Un-audited)</i>
Consumer loans	8,724,159	8,066,492	5,937,482
Commercial loans and overdrafts	48,480,931	45,349,320	42,478,805
Credit cards	248,623	249,392	236,147
Performing loans and advances	57,453,713	53,665,204	48,652,434
Non-performing loans and advances	736,524	738,619	706,377
Gross loans and advances	58,190,237	54,403,823	49,358,811
Allowance for impairment of credit losses	(1,181,770)	(1,192,563)	(1,117,790)
Loans and advances, net	57,008,467	53,211,260	48,241,021

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2014

Amounts in SAR'000

7. CUSTOMERS' DEPOSITS

	March 31, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	March 31, 2013 <i>(Un-audited)</i>
Time	36,987,992	35,575,566	31,497,910
Demand	27,372,492	24,951,832	23,993,691
Saving	461,485	434,877	411,642
Other	977,342	913,174	700,983
Total	65,799,311	61,875,449	56,604,226

8. 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>	March 31, 2014 <i>(Un-audited)</i>			December 31, 2013 <i>(Audited)</i>			March 31, 2013 <i>(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	132,737	55,260	24,412,249	139,669	70,968	23,343,399	134,847	100,503	19,572,775
Foreign exchange and commodity forward contracts	50,140	20,313	21,422,365	81,976	34,313	15,641,511	71,894	61,485	21,430,196
Currency and commodity options	32,822	32,181	28,364,907	64,653	64,653	27,548,514	34,178	34,178	29,636,246
Forward rate agreements	-	-	-	44	-	200,000	106	-	200,000
Commission rate options	1	1	1,000,000	1	1	1,219,279	18	18	1,219,279
Held as fair value hedges:									
Commission rate swaps	-	4,994	373,361	-	5,958	375,630	-	20,829	638,664
Held as cash flow hedges:									
Commission rate swaps	-	-	-	-	-	-	-	4,885	350,000
Total	215,700	112,749	75,572,882	286,343	175,893	68,328,333	241,043	221,898	73,047,160

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2014

Amounts in SAR'000

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>March 31, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>March 31, 2013 (Un-audited)</i>
Letters of credit	6,484,896	5,709,313	6,791,623
Letters of guarantee	19,989,571	19,512,430	16,328,339
Acceptances	2,703,322	2,689,895	2,450,087
Irrevocable commitments to extend credit	2,188,392	2,176,615	1,276,456
Total	31,366,181	30,088,253	26,846,505

10. CASH AND CASH EQUIVALENTS

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

	<i>March 31, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>March 31, 2013 (Un-audited)</i>
Cash and balances with SAMA excluding statutory deposits	2,424,256	3,558,843	3,417,278
Due from banks and other financial institutions maturing within ninety days of acquisition date	1,240,693	814,367	552,877
Total	3,664,949	4,373,210	3,970,155

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 operating decision makers in order to allocate resources and to assess performance. 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:

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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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11. OPERATING SEGMENTS (Continued)

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 March 31, 2014 and 2013 (Un-audited).

<u>2014</u>	<u>Corporate banking</u>	<u>Personal banking</u>	<u>Treasury</u>	<u>Investment banking and Investment services</u>	<u>Others</u>	<u>Total</u>
Total assets	46,848,409	10,363,313	22,309,844	510,157	4,990,793	85,022,516
Total liabilities	36,136,566	19,330,580	3,281,154	23,213	16,897,024	75,668,537
Total operating income, net	466,672	195,354	130,763	17,141	(52,775)	757,155
Total operating expenses (without impairment charges for credit losses)	88,285	125,967	20,492	11,031	-	245,775
Impairment charges net of recoveries	73,721	15,506	-	-	-	89,227
Net operating income for the period	304,666	53,881	110,271	6,110	(52,775)	422,153

<u>2013</u>	<u>Corporate banking</u>	<u>Personal banking</u>	<u>Treasury</u>	<u>Investment banking and Investment services</u>	<u>Others</u>	<u>Total</u>
Total assets	41,385,217	6,975,325	19,088,139	495,741	4,708,695	72,653,117
Total liabilities	27,834,401	18,316,341	2,737,266	25,622	15,529,855	64,443,485
Total operating income, net	413,064	165,140	57,149	12,639	(64,065)	583,927
Total operating expenses (without impairment charges for credit losses)	66,305	122,939	16,310	10,649	-	216,203
Impairment charges net of recoveries	17,515	4,287	-	-	-	21,802
Net operating income for the period	329,244	37,914	40,839	1,990	(64,065)	345,922

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12. ZAKAT AND INCOME TAX

The Bank has filed its Zakat and tax returns for the years up to and including the financial year 2012 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.

13. 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 earnings per share for the periods ended March 31, 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.

14. 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.

March 31, 2014 (un-audited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	215,700	-	215,700
Financial investments available for sale	297,744	215,762	3,438	516,944
Total	297,744	431,462	3,438	732,644
Financial Liabilities				
Derivative financial instruments	-	112,749	-	112,749
Total	-	112,749	-	112,749

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14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

<u>December 31, 2013 (audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	286,343	-	286,343
Financial investments available for sale	308,307	219,850	3,438	531,595
Total	<u>308,307</u>	<u>506,193</u>	<u>3,438</u>	<u>817,938</u>
Financial Liabilities				
Derivative financial instruments	-	175,893	-	175,893
Total	<u>-</u>	<u>175,893</u>	<u>-</u>	<u>175,893</u>
 <u>March 31, 2013 (un-audited)</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	168,393	66,485	4,188	239,066
Total	<u>168,393</u>	<u>307,528</u>	<u>4,188</u>	<u>480,109</u>
Financial Liabilities				
Derivative financial instruments	-	221,898	-	221,898
Total	<u>-</u>	<u>221,898</u>	<u>-</u>	<u>221,898</u>

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.

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 consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk.

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

	<i>March 31, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>March 31, 2013 (Un-audited)</i>
Credit Risk RWA	75,268,862	71,695,801	64,162,362
Operational Risk RWA	3,720,113	3,653,600	3,611,350
Market Risk RWA	335,614	440,854	384,314
Total Pillar-I RWA	79,324,589	75,790,255	68,158,026
Tier I Capital	9,340,353	8,910,966	8,200,327
Tier II Capital	4,950,601	4,970,076	3,303,508
Total Tier I & II Capital	14,290,954	13,881,042	11,503,835
Capital Adequacy Ratio %			
Tier I ratio	11.77	11.76	12.03
Tier I + Tier II ratio	18.02	18.32	16.88

16. BASEL III – CAPITAL STRUCTURE

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

17. COMPARATIVE FIGURES

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