

Saudi Hollandi Bank  **البنك السعودي الهولندي**

Saudi Hollandi Bank
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**
(Un-audited)

**FOR THE NINE MONTH PERIOD ENDED
SEPTEMBER 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 September 30, 2014, and the related interim condensed consolidated income statement and the interim condensed consolidated statement of comprehensive income for the three and nine 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 nine 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.

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Kingdom of Saudi Arabia**

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



**5 Muharram 1436H
29 October 2014**

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



Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	<i>Notes</i>	<i>September 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>September 30, 2013 (Un-audited)</i>
ASSETS				
Cash and balances with SAMA		5,719,592	6,662,522	4,938,052
Due from banks and other financial institutions		967,608	1,751,367	1,899,250
Investments, net	5	19,414,471	16,849,162	15,774,941
Loans and advances, net	6	63,368,710	53,211,260	53,230,374
Investment in an associate		10,832	17,233	17,235
Property and equipment, net		517,431	504,802	487,686
Other assets		1,595,760	1,471,915	1,620,417
Total assets		91,594,404	80,468,261	77,967,955
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,815,171	2,494,278	2,852,660
Customers' deposits	7	72,691,209	61,875,449	61,398,239
Subordinated debt		4,625,000	4,625,000	2,900,000
Other liabilities		2,128,447	2,072,106	1,773,311
Total liabilities		81,259,827	71,066,833	68,924,210
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		63,296	21,690	18,585
Reserve for bonus shares		-	793,800	-
Retained earnings		2,274,381	915,348	2,205,590
Proposed gross dividends		-	468,342	-
Share based plan reserve		22,972	22,120	14,844
Total shareholders' equity		10,334,577	9,401,428	9,043,745
Total liabilities and shareholders' equity		91,594,404	80,468,261	77,967,955

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


Maha Al-Sudari
Board Secretary &
Chief Governance Officer


Mr. John Macedo
Chief Financial Officer

Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in SAR'000 (Un-audited)

	Note	For the three month period ended		For the nine month period ended	
		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Special commission income		640,189	547,752	1,818,579	1,524,263
Special commission expense		131,074	114,806	382,072	327,612
Net special commission income		509,115	432,946	1,436,507	1,196,651
Fee and commission income, net		214,120	176,116	677,877	541,727
Exchange income, net		42,380	29,301	118,084	90,084
Trading income, net		40,199	26,440	118,546	113,922
Dividend income from available for sale investments		2,852	3,276	6,033	3,276
Gains / (losses) on non-trading investments, net		-	(750)	20,014	(750)
Total operating income		808,666	667,329	2,377,061	1,944,910
Salaries and employee-related expenses		145,008	127,682	426,403	379,131
Rent and premises-related expenses		25,721	20,836	77,179	62,524
Depreciation and amortisation		26,106	23,407	77,436	73,247
Other general and administrative expenses		60,952	49,035	172,145	141,090
Impairment charges for credit losses, net		89,558	11,958	258,464	133,797
Total operating expenses		347,345	232,918	1,011,627	789,789
Operating income		461,321	434,411	1,365,434	1,155,121
Share in earning / (loss) of an associate		502	(1,149)	(6,401)	(817)
Net income for the period		461,823	433,262	1,359,033	1,154,304
Basic and diluted EPS (expressed in SAR per share)	14	0.97	0.91	2.85	2.42

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


Maha Al-Sudairi
Board Secretary &
Chief Governance Officer

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Amounts in SAR'000 (Un-audited)

	For the three month period ended		For the nine month period ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income for the period	461,823	433,262	1,359,033	1,154,304
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	38,373	16,577	60,273	18,273
- Transferred to the interim condensed consolidated income statement	449	449	(18,667)	1,347
	<u>38,822</u>	<u>17,026</u>	<u>41,606</u>	<u>19,620</u>
Cash flow hedges:				
- Effective portion of changes in fair value recognised	-	1,635	-	4,755
Total comprehensive income for the period	<u>500,645</u>	<u>451,923</u>	<u>1,400,639</u>	<u>1,178,679</u>


Maha Al-Sudairi
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Chief Governance Officer


Mr. John Macedo
Chief Financial Officer



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Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY

For the nine month period ended September 30, 2014

Amounts in SAR'000 (Un-audited)

	Note	Share capital	Statutory reserve	General Reserve	Other reserves			Retained earnings	Proposed gross dividends	Share based plan reserve	Total Shareholders' equity
					Available for sale investments	Cash flow hedges	Reserve for bonus shares				
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		-	-	-	41,606	-	-	1,359,033	-	-	1,400,639
Bonus shares issued	14	793,800	-	-	-	-	(793,800)	-	-	-	-
Dividends paid		-	-	-	-	-	-	(468,342)	-	-	(468,342)
Share based plan transactions		-	-	-	-	-	-	-	-	852	852
Balance at the end of the period		4,762,800	3,081,128	130,000	63,296	-	-	2,274,381	-	22,972	10,334,577
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		-	-	-	19,620	4,755	-	1,154,304	-	-	1,178,679
Dividends paid		-	-	-	-	-	-	(444,528)	-	-	(444,528)
Share based plan transactions		-	-	-	-	-	-	-	-	3,615	3,615
Balance at the end of the period		3,969,000	2,705,726	130,000	20,185	(1,600)	-	2,205,590	-	14,844	9,043,745


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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended September 30, 2014

Amounts in SAR'000 (Un-audited)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES			
Net income for the period		1,359,033	1,154,304
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		(76,766)	(59,004)
(Gains) / loss on non-trading investments, net		(20,014)	750
Gain on investments held as FVIS		(236)	-
Depreciation and amortisation		77,436	73,247
Share based plan expenses		9,814	7,654
Impairment charge for credit losses		258,464	133,797
Share in loss of an associate		6,401	817
		<u>1,614,132</u>	<u>1,311,565</u>
Net (increase) /decrease in operating assets:			
Statutory deposit with SAMA		(582,493)	(373,495)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		937,000	(937,000)
Loans and advances, net		(10,415,914)	(8,531,839)
Other assets		(319,908)	(387,348)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(679,107)	1,377,737
Customers' deposits		10,815,760	7,484,567
Other liabilities		56,341	(137,628)
Net cash from / (used in) operating activities		<u>1,425,811</u>	<u>(193,441)</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments		10,958,699	4,092,201
Purchase of non-trading investments		(13,385,622)	(8,410,691)
Purchase of property and equipment		(90,065)	(72,166)
Net cash used in investing activities		<u>(2,516,988)</u>	<u>(4,390,656)</u>
FINANCING ACTIVITIES			
Dividends paid net of Zakat and tax recovered from shareholders		(281,005)	(292,268)
Net cash used in financing activities		<u>(281,005)</u>	<u>(292,268)</u>
Net decrease in cash and cash equivalents		(1,372,182)	(4,876,365)
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>3,001,028</u>	<u>2,919,679</u>
Special commission received during the period		1,797,884	1,499,217
Special commission paid during the period		310,682	315,999
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated income statement		41,606	24,375

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


Maha Al-Sudairi
Board Secretary &
Chief Governance Officer


Mr. John Macedo
Chief Financial Officer

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine month period ended September 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 54 branches (December 31, 2013: 48 branches and September 30, 2013: 48 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 nine month period ended September 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:

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 nine month period ended September 30, 2014

Amounts in SAR'000

5. INVESTMENTS, NET

a) Investment securities are classified as follows:	September 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	September 30, 2013 <i>(Un-audited)</i>
- Available for sale (AFS)	578,515	531,595	509,858
- Other investments held at amortised cost (OI)	18,749,689	16,221,738	15,168,829
- Held to maturity (HTM)	86,267	95,829	96,254
Total	19,414,471	16,849,162	15,774,941

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 10.31 million (December 31, 2013: SAR 5.6 million and September 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>		
	September 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	September 30, 2013 <i>(Un-audited)</i>	September 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	September 30, 2013 <i>(Un-audited)</i>
AFS securities reclassified	<u>147,911</u>	<u>146,482</u>	<u>145,992</u>	<u>147,207</u>	<u>142,457</u>	<u>139,784</u>

Further, with effect from July 20, 2011, the Group had 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 had the intention and ability to hold these reclassified investments for the foreseeable future or until maturity. These investments were matured during the current period.

6. LOANS AND ADVANCES, NET

	September 30, 2014 <i>(Un-audited)</i>	December 31, 2013 <i>(Audited)</i>	September 30, 2013 <i>(Un-audited)</i>
Consumer loans	10,147,769	8,066,492	7,453,130
Commercial loans and overdrafts	53,436,400	45,349,320	45,984,941
Credit cards	267,017	249,392	252,268
Performing loans and advances	63,851,186	53,665,204	53,690,339
Non-performing loans and advances	796,335	738,619	741,363
Gross loans and advances	64,647,521	54,403,823	54,431,702
Impairment charges for credit losses, net	(1,278,811)	(1,192,563)	(1,201,328)
Loans and advances, net	63,368,710	53,211,260	53,230,374

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

7. CUSTOMERS' DEPOSITS

	<i>September 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>September 30, 2013 (Un-audited)</i>
Time	42,424,932	35,575,566	35,590,521
Demand	28,609,727	24,951,832	24,412,474
Saving	451,699	434,877	422,357
Others	1,204,851	913,174	972,887
Total	72,691,209	61,875,449	61,398,239

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 to market risk.

<i>Derivative financial instruments</i>	<i>September 30, 2014 (Un-audited)</i>			<i>December 31, 2013 (Audited)</i>			<i>September 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>
Held for trading:									
Commission rate swaps	122,265	31,160	28,212,032	139,669	70,968	23,343,399	140,448	75,945	23,254,627
Foreign exchange and commodity forward contracts	100,387	74,557	19,925,318	81,976	34,313	15,641,511	55,216	48,189	20,583,878
Currency and commodity options	48,936	49,028	44,452,942	64,653	64,653	27,548,514	73,976	73,976	31,493,535
Forward rate agreements	-	-	-	44	-	200,000	118	-	200,000
Commission rate options	1	1	1,000,000	1	1	1,219,279	7	7	1,219,279
Held as fair value hedges:									
Commission rate swaps	-	2,726	187,540	-	5,958	375,630	-	7,449	418,968
Held as cash flow hedges:									
Commission rate swaps	-	-	-	-	-	-	-	1,600	350,000
Total	271,589	157,472	93,777,832	286,343	175,893	68,328,333	269,765	207,166	77,520,287

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

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>September 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>September 30, 2013 (Un-audited)</i>
Letters of guarantee	22,805,952	19,512,430	18,086,076
Letters of credit	4,812,958	5,709,313	5,703,012
Acceptances	2,879,870	2,689,895	2,792,244
Irrevocable commitments to extend credit	<u>1,443,066</u>	<u>2,176,615</u>	<u>1,743,010</u>
Total	<u>31,941,846</u>	<u>30,088,253</u>	<u>28,324,342</u>

10. CASH AND CASH EQUIVALENTS

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

	<i>September 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>September 30, 2013 (Un-audited)</i>
Cash and balances with SAMA excluding statutory deposits	2,033,420	3,558,843	1,957,429
Due from banks and other financial institutions maturing within ninety days of the acquisition date	<u>967,608</u>	<u>814,367</u>	<u>962,250</u>
Total	<u>3,001,028</u>	<u>4,373,210</u>	<u>2,919,679</u>

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.

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11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

<u>September 30, 2014 (un-audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	271,589	-	271,589
Financial investments available for sale	368,037	207,040	3,438	578,515
Total	368,037	478,629	3,438	850,104
Financial Liabilities				
Derivative financial instruments	-	157,472	-	157,472
Total	-	157,472	-	157,472
<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	308,307	506,193	3,438	817,938
Financial Liabilities				
Derivative financial instruments	-	175,893	-	175,893
Total	-	175,893	-	175,893
<u>September 30, 2013 (un-audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	269,765	-	269,765
Financial investments available for sale	280,536	225,884	3,438	509,858
Total	280,536	495,649	3,438	779,623
Financial Liabilities				
Derivative financial instruments	-	207,166	-	207,166
Total	-	207,166	-	207,166

The fair values of financial instruments on interim condensed consolidated statement of financial position, 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 estimated fair values of OI and HTM investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of loans and advances, commission bearing customers' deposits, subordinated debts, due from and due to banks and other financial institutions 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 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 senior management, is measured in a manner consistent with that in the interim condensed consolidated income statement.

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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 September 30, 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	51,531,785	12,080,821	21,650,902	526,952	5,803,944	91,594,404
Total liabilities	37,001,778	21,336,504	1,815,171	15,623	21,090,751	81,259,827
Total operating income, net	1,333,200	674,984	419,530	62,616	(113,269)	2,377,061
Total operating expenses (excluding impairment charges for credit losses)	254,296	400,471	66,044	32,352	-	753,163
Impairment charges net of recoveries	214,789	43,675	-	-	-	258,464
Net operating income for the period	864,115	230,838	353,486	30,264	(113,269)	1,365,434

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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	44,580,889	8,853,066	19,142,415	496,042	4,895,543	77,967,955
Total liabilities	31,611,615	18,602,088	2,852,660	16,842	15,841,005	68,924,210
Total operating income, net	1,098,079	517,837	317,344	43,612	(31,962)	1,944,910
Total operating expenses (excluding impairment charges for credit losses)	225,529	342,748	55,440	32,275	-	655,992
Impairment charges net of recoveries	103,698	30,099	-	-	-	133,797
Net operating income for the period	768,852	144,990	261,904	11,337	(31,962)	1,155,121

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 September 30, 2014 and 2013 are calculated by dividing the net income for the period attributable to the equity holders by 476.28 million shares to give a retrospective effect 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.

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15. CAPITAL ADEQUACY (Continued)

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

	<i>September 30, 2014 (Un-audited)</i>	<i>December 31, 2013 (Audited)</i>	<i>September 30, 2013 (Un-audited)</i>
Credit Risk RWA	83,154,954	71,695,801	70,706,803
Operational Risk RWA	3,948,463	3,653,600	3,635,163
Market Risk RWA	472,926	440,854	477,308
Total Pillar-I RWA	87,576,343	75,790,255	74,819,274
Tier I Capital	10,311,604	8,910,966	9,028,901
Tier II Capital	5,001,725	4,970,076	3,386,277
Total Tier I & II Capital	15,313,329	13,881,042	12,415,178
Capital Adequacy Ratio %			
Tier I ratio	11.77	11.76	12.07
Tier I + Tier II ratio	17.49	18.32	16.59

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 additional disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website www.shb.com.sa within prescribed time as required by SAMA. Such disclosures are not subject to review by the external auditors of the Bank.