

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, 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 September 30, 2013, and the related interim condensed consolidated statements of income and comprehensive income for the three month 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 (17) for the nine month period then ended. We have not reviewed note (16), nor the information related to "Basel III Pillar 3 Disclosures" 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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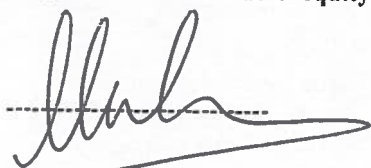


Muharram 3, 1435H
November 6, 2013

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, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>September 30, 2012 (Un-audited)</i>
ASSETS				
Cash and balances with SAMA		4,938,052	9,562,455	8,235,672
Due from banks and other financial institutions		1,899,250	840,717	727,213
Investments, net	5	15,774,941	11,378,577	11,266,261
Loans and advances, net	6	53,671,936	45,276,199	43,644,492
Investment in an associate		17,235	18,050	18,495
Property and equipment, net		487,686	488,767	480,427
Other assets		1,178,855	940,748	984,535
Total assets		77,967,955	68,505,513	65,357,095
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		2,852,660	1,474,923	1,393,624
Customers' deposits	7	61,398,239	53,913,672	52,757,358
Subordinated debt		2,900,000	2,900,000	1,500,000
Other liabilities		1,773,311	1,910,939	1,719,540
Total liabilities		68,924,210	60,199,534	57,370,522
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		18,585	(5,790)	(9,822)
Retained earnings		2,205,590	1,051,286	1,495,645
Proposed dividend		-	444,528	-
Staff share plan reserve		14,844	11,229	9,270
Total shareholders' equity		9,043,745	8,305,979	7,986,573
Total liabilities and shareholders' equity		77,967,955	68,505,513	65,357,095




Mr. John Macedo
Chief Financial Officer



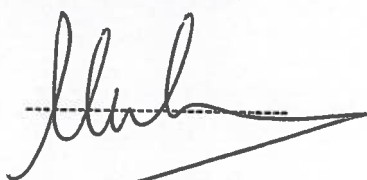
Dr. Bernd van Linder
Managing Director
Saudi Hollandi Bank

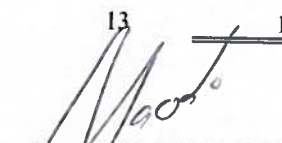
The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

Amounts in SAR'000 (Un-audited)

<u>Note</u>	<u>For the three month period ended</u>		<u>For the nine month period ended</u>	
	<u>September 30, 2013</u>	<u>September 30, 2012</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
Special commission income	547,752	436,244	1,524,263	1,266,147
Special commission expense	114,806	74,843	327,612	238,923
Net special commission income	432,946	361,401	1,196,651	1,027,224
Fee and commission income, net	176,116	165,530	541,727	474,679
Exchange income, net	29,301	26,961	90,084	87,431
Trading income, net	26,440	20,557	113,922	75,463
Dividend income	3,276	-	3,276	-
(Losses) / gains on non-trading investments, net	(750)	45	(750)	4,546
Total operating income	667,329	574,494	1,944,910	1,669,343
Salaries and employee related expenses	127,682	119,068	379,131	354,004
Rent and premises related expenses	20,836	17,870	62,524	54,836
Depreciation and amortisation	23,407	27,948	73,247	83,984
Other general and administrative expenses	49,035	50,192	141,090	145,156
Impairment charge for credit losses, net	11,958	54,195	133,797	112,540
Release of impairment charge of investments	-	(12,000)	-	(20,000)
Total operating expenses	232,918	257,273	789,789	730,520
Operating income	434,411	317,221	1,155,121	938,823
Share in (losses) / earnings of an associate	(1,149)	-	(817)	745
Net income for the period	433,262	317,221	1,154,304	939,568
Basic and diluted earnings per share (expressed in SAR per share)	1.09	0.80	2.91	2.37



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Mr. John Macedo
Chief Financial Officer


Dr. Bernd van Linder
Managing Director
Saudi Hollandi Bank



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

Saudi Hollandi Bank
A Saudi Joint Stock Company

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, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income for the period	433,262	317,221	1,154,304	939,568
Other comprehensive income				
Available for sale investments				
- Net change in the fair value	16,577	(911)	18,273	3,047
- Transferred to interim condensed consolidated statement of income	449	947	1,347	4,064
	17,026	36	19,620	7,111
Cash flow hedges				
- Effective portion of net changes in the fair value	1,635	1,012	4,755	3,307
Total comprehensive income for the period	451,923	318,269	1,178,679	949,986


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


 **Mr. John Macedo**
Chief Financial Officer


 **Dr. Bernd van Linder**
Managing Director
Saudi Hollandi Bank

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY

For the nine month periods ended September 30, 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>
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
Dividend paid	-	-	-	-	-	-	-	(444,528)	-	(444,528)
Staff share based plan transactions	-	-	-	-	-	-	-	-	3,615	3,615
Balance at the end of the period	<u>3,969,000</u>	<u>2,705,726</u>	<u>130,000</u>	<u>20,185</u>	<u>(1,600)</u>	<u>-</u>	<u>2,205,590</u>	<u>-</u>	<u>14,844</u>	<u>9,043,745</u>
2012										
Balance at the beginning of the period	3,307,500	2,392,480	130,000	(8,366)	(11,874)	661,500	556,077	377,055	3,950	7,408,322
Total comprehensive income for the period	-	-	-	7,111	3,307	-	939,568	-	-	949,986
Bonus shares issued	661,500	-	-	-	-	(661,500)	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	(377,055)	-	(377,055)
Staff share based plan transactions	-	-	-	-	-	-	-	-	5,320	5,320
Balance at the end of the period	<u>3,969,000</u>	<u>2,392,480</u>	<u>130,000</u>	<u>(1,255)</u>	<u>(8,567)</u>	<u>-</u>	<u>1,495,645</u>	<u>-</u>	<u>9,270</u>	<u>7,986,573</u>


Maha Al-Sudairi
Board Secretary &
Chief Governance Officer


Mr. John Macedo
Chief Financial Officer


Dr. Bandar Alinder
Managing Director
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Saudi Hollandi Bank
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine month periods ended September 30, 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		1,154,304	939,568
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		(59,004)	(31,645)
Losses / (gains) on non-trading investments, net		750	(4,546)
Depreciation and amortisation		73,247	83,984
Staff share based plan expenses		7,654	5,320
Impairment charge for credit losses		133,797	112,540
Share in losses / (earnings) of an associate		817	(745)
Release of impairment charge of investments		-	(20,000)
		<u>1,311,565</u>	<u>1,084,476</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(373,495)	(217,819)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(937,000)	-
Investments held at FVIS (including trading investments)		-	11,110
Loans and advances, net		(8,529,534)	(6,347,434)
Other assets		(389,653)	(888,006)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,377,737	(217,467)
Customers' deposits		7,484,567	8,068,622
Other liabilities		(137,628)	654,836
Net cash (used in) / from operating activities		<u>(193,441)</u>	<u>2,148,318</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments		4,092,201	11,770,719
Purchase of non-trading investments		(8,410,691)	(11,482,252)
Purchase of property and equipment		(72,166)	(74,912)
Net cash (used in) / from investing activities		<u>(4,390,656)</u>	<u>213,555</u>
FINANCING ACTIVITIES			
Dividend paid net of Zakat and tax recovered from shareholders		(292,268)	(198,450)
Net cash used in financing activities		<u>(292,268)</u>	<u>(198,450)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(4,876,365)</u>	<u>2,163,423</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	10	<u>2,919,679</u>	<u>6,486,564</u>
Special commission received during the period		1,499,217	1,211,540
Special commission paid during the period		315,999	209,625
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated statement of comprehensive income		24,375	10,418

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


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Board Secretary &
Chief Governance Officer


Mr. John Macedo
Chief Financial Officer


Dr. Bernd van Linder
Managing Director
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine month period ended September 30, 2013

1. GENERAL

Saudi Hollandi Bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 17 Shaaban 1397H (corresponding to August 3, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 48 branches (December 31, 2012: 45 branches and September 30, 2012: 45 branches) in the Kingdom of Saudi Arabia. The registered 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.

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 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 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, 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 nine month period ended September 30, 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, except where indicated otherwise.

3. BASIS OF CONSOLIDATION

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2012 except for the adoption of the following new standards and other amendments to existing standards mentioned below which has had an insignificant effect on the interim condensed consolidated financial statements of the Group on the current period or prior periods 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 nine month period ended September 30, 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.

The Group has chosen not to early adopt the following amendments / standards, which are effective for financial periods on or after January 1, 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities.
- IAS 32 Offsetting Financial Assets and Financial Liabilities.

Additionally, the Group has chosen not to early adopt IFRS 9 (2010) – Financial Instruments, which has been published but will not be effective until January 1, 2015. The Group is currently assessing the implication of the above standards and amendments on the Group and timing of the adoption.

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

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	September 30, 2013 (Un-audited)	December 31, 2012 (Audited)	September 30, 2012 (Un-audited)
- Available for sale (AFS)	509,858	240,487	379,213
- Other investments held at amortised cost (OI)	15,168,829	11,032,635	10,777,533
- Held to maturity (HTM)	96,254	105,455	109,515
Total	15,774,941	11,378,577	11,266,261

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 3 million (December 31, 2012: Loss of SAR 2 million and September 30, 2012: Loss of SAR 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>		
	September 30, 2013 (Un-audited)	December 31, 2012 (Audited)	September 30, 2012 (Un-audited)	September 30, 2013 (Un-audited)	December 31, 2012 (Audited)	September 30, 2012 (Un-audited)
AFS securities reclassified	145,992	144,590	144,097	139,784	135,172	130,081

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

6. LOANS AND ADVANCES, NET

	September 30, 2013 (Un-audited)	December 31, 2012 (Audited)	September 30, 2012 (Un-audited)
Consumer loans	7,453,130	5,176,167	4,746,974
Commercial loans and overdrafts	46,426,503	40,245,828	38,980,890
Credit cards	252,268	235,638	242,348
Performing loans and advances	54,131,901	45,657,633	43,970,212
Non-performing loans and advances	741,363	722,115	761,790
Gross loans and advances	54,873,264	46,379,748	44,732,002
Allowance for impairment of credit losses	(1,201,328)	(1,103,549)	(1,087,510)
Loans and advances, net	53,671,936	45,276,199	43,644,492

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

7. CUSTOMERS' DEPOSITS

	September 30, 2013 (Un-audited)	December 31, 2012 (Audited)	September 30, 2012 (Un-audited)
Time	35,590,521	30,129,109	29,661,291
Demand	24,412,474	22,698,615	21,907,096
Saving	422,357	411,420	404,275
Other	972,887	674,528	784,696
Total	61,398,239	53,913,672	52,757,358

8. DERIVATIVES

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

Derivative financial instruments	September 30, 2013 (Un-audited)			December 31, 2012 (Audited)			September 30, 2012 (Un-audited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Commission rate swaps	140,448	75,945	23,254,627	132,136	105,144	18,682,591	165,720	143,267	18,269,751
Foreign exchange and commodity forward contracts	55,216	48,189	20,583,878	99,614	97,450	21,742,440	127,582	127,178	28,227,421
Currency and commodity options	73,976	73,976	31,493,535	21,722	21,501	21,556,764	5,109	5,109	25,307,792
Forward rate agreement	118	-	200,000	19	-	200,000	185	48	700,000
Commission rate options	7	7	1,219,279	33	33	1,219,279	73	73	1,219,279
Held as fair value hedges:									
Commission rate swaps	-	7,449	418,968	-	22,717	651,835	-	26,614	701,685
Held as cash flow hedges:									
Commission rate swaps	-	1,600	350,000	-	6,355	350,000	-	8,567	350,000
Total	269,765	207,166	77,520,287	253,524	253,200	64,402,909	298,669	310,856	74,775,928

Saudi Hollandi Bank
A Saudi Joint Stock Company

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9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>September 30, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>September 30, 2012 (Un-audited)</i>
Letters of guarantee	18,086,076	15,470,871	15,370,039
Letters of credit	5,703,012	6,303,340	6,450,568
Acceptances	2,792,244	2,271,881	2,178,851
Irrevocable commitments to extend credit	1,743,010	1,203,686	1,074,040
Total	28,324,342	25,249,778	25,073,498

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, 2013 (Un-audited)</i>	<i>December 31, 2012 (Audited)</i>	<i>September 30, 2012 (Un-audited)</i>
Cash and balances with SAMA excluding statutory deposits	1,957,429	6,955,327	5,759,351
Due from banks and other financial institutions maturing within ninety days of acquisition date	962,250	840,717	727,213
Total	2,919,679	7,796,044	6,486,564

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

Personal Banking

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

Corporate Banking

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

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11. OPERATING SEGMENTS (Continued)

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 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 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, 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	8,853,066	45,022,451	19,142,415	496,042	4,453,981	77,967,955
Total liabilities	18,602,088	31,611,615	2,852,660	16,842	15,841,005	68,924,210
Total operating income, net	539,106	1,313,188	193,804	43,612	(144,800)	1,944,910
Total operating expenses (without impairment charges for credit losses)	369,111	203,832	50,774	32,275	-	655,992
Impairment charges net of recoveries	30,099	103,698	-	-	-	133,797
Net operating income for the period	139,896	1,005,658	143,030	11,337	(144,800)	1,155,121
<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	5,991,925	37,667,887	17,123,934	477,463	4,095,886	65,357,095
Total liabilities	17,485,762	26,639,448	1,393,624	14,288	11,837,400	57,370,522
Total operating income, net	476,222	1,149,266	163,044	59,739	(178,928)	1,669,343
Total operating expenses (without impairment charges for credit losses and investment impairment release)	356,229	176,692	65,728	39,331	-	637,980
Impairment charges net of recoveries	53,567	58,973	-	-	-	112,540
Release of impairment charge of investments	-	-	(20,000)	-	-	(20,000)
Net operating income for the period	66,426	913,601	117,316	20,408	(178,928)	938,823

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12. ZAKAT AND INCOME TAX

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

13. EARNINGS PER SHARE

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

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

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

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

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

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

September 30, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	269,765	-	269,765
Financial investments available for sale	280,536	225,884	3,438	509,858
Total	<u>280,536</u>	<u>495,649</u>	<u>3,438</u>	<u>779,623</u>
<u>Financial Liabilities</u>				
Derivative financial instruments	-	207,166	-	207,166
Total	<u>-</u>	<u>207,166</u>	<u>-</u>	<u>207,166</u>

December 31, 2012

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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<u>September 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Derivative financial instruments	-	298,669	-	298,669
Financial investments available for sale	297,922	77,103	4,188	379,213
Total	<u>297,922</u>	<u>375,772</u>	<u>4,188</u>	<u>677,882</u>
Financial Liabilities				
Derivative financial instruments	-	310,856	-	310,856
Total	<u>-</u>	<u>310,856</u>	<u>-</u>	<u>310,856</u>

15. CAPITAL ADEQUACY

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

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

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

	<u>September 30, 2013 (Un-audited)</u>	<u>December 31, 2012 (Audited)</u>	<u>September 30, 2012 (Un-audited)</u>
Credit Risk RWA	70,706,803	58,831,550	57,327,285
Operational Risk RWA	3,635,163	3,625,338	3,639,913
Market Risk RWA	477,308	738,672	590,645
Total Pillar-I RWA	<u>74,819,274</u>	<u>63,195,560</u>	<u>61,557,843</u>
Tier I Capital	9,028,901	7,841,197	7,028,488
Tier II Capital	3,386,277	3,278,204	2,735,518
Total Tier I & II Capital	<u>12,415,178</u>	<u>11,119,401</u>	<u>9,764,006</u>
Capital Adequacy Ratio %			
Tier I ratio	12.07	12.41	11.42
Tier I + Tier II ratio	16.59	17.60	15.86

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16. BASEL III PILLAR 3 DISCLOSURES

Certain quantitative disclosures under Basel III Pillar 3 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. Such disclosures are not subject to review/audit 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.