



**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

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**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**

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**December 31, 2013 and 2012**

# THE SAUDI INVESTMENT BANK

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2013 and 2012

		2013	2012
	Notes	SAR'000	SAR'000
<b>ASSETS</b>			
Cash and balances with SAMA	4	6,307,029	7,335,643
Due from banks and other financial institutions	5	5,573,529	3,831,774
Investments, net	6	17,696,495	10,911,961
Loans and advances, net	7	47,566,871	34,050,692
Investments in associates	8	1,070,648	965,902
Property and equipment, net	9	872,534	866,896
Other assets	10	1,408,307	1,103,782
<b>Total assets</b>		<b>80,495,413</b>	<b>59,066,650</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	12	9,828,232	6,269,045
Customer deposits	13	57,043,847	40,413,571
Other liabilities	14	1,370,559	1,005,208
Term loans	15	2,000,000	2,000,000
<b>Total liabilities</b>		<b>70,242,638</b>	<b>49,687,824</b>
<b>Equity</b>			
Share capital	16	5,500,000	5,500,000
Statutory reserve	17	3,253,000	2,931,000
Other reserves		(33,664)	(38,992)
Retained earnings		1,085,313	597,979
Proposed dividends	25	477,500	416,600
Employee stock option shares	36	(29,374)	(27,761)
<b>Total equity</b>		<b>10,252,775</b>	<b>9,378,826</b>
<b>Total liabilities and equity</b>		<b>80,495,413</b>	<b>59,066,650</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**THE SAUDI INVESTMENT BANK**  
**CONSOLIDATED INCOME STATEMENT**  
For the years ended December 31, 2013 and 2012

	<b>Notes</b>	<b>2013 SAR'000</b>	<b>2012 SAR'000</b>
Special commission income	19	<b>1,884,161</b>	1,590,816
Special commission expense	19	<b>519,179</b>	348,883
<b>Net special commission income</b>		<b>1,364,982</b>	1,241,933
Fee income from banking services, net	20	<b>394,205</b>	315,107
Exchange income, net		<b>58,415</b>	37,391
Dividend income	21	<b>21,963</b>	16,281
Gains on non-trading investments, net	22	<b>158,175</b>	20,872
Gain on sale of property and other income		<b>18,925</b>	90,018
<b>Total operating income</b>		<b>2,016,665</b>	1,721,602
Salaries and employee-related expenses	23	<b>439,020</b>	361,831
Rent and premises-related expenses		<b>98,017</b>	82,289
Depreciation and amortization	9	<b>71,697</b>	70,041
Other general and administrative expenses		<b>152,922</b>	117,921
Impairment charge for credit losses, net	7(b)	<b>105,000</b>	255,000
Impairment charge for non-trading investments, net	6 (f)	<b>24,000</b>	69,000
<b>Total operating expenses</b>		<b>890,656</b>	956,082
<b>Income from operating activities</b>		<b>1,126,009</b>	765,520
Share in earnings of associates	8	<b>160,825</b>	146,517
<b>Net income for the year</b>		<b>1,286,834</b>	912,037
<b>Basic and diluted earnings per share (expressed in SAR per share)</b>	24	<b>2.34</b>	1.66

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**THE SAUDI INVESTMENT BANK****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the years ended December 31, 2013 and 2012**

	<b>2013</b> <b>SAR'000</b>	2012 SAR'000
<b>Net income for the year</b>	<b>1,286,834</b>	912,037
<b>Other comprehensive income</b>		
Available for sale investments:		
- Net change in fair value	<b>162,958</b>	255,363
- Fair value gain transferred to consolidated income statement on disposal	<b>(158,175)</b>	(20,872)
Share of other comprehensive income / (loss) of associates	<b>545</b>	(716)
Total other comprehensive income for the year	<b>5,328</b>	233,775
<b>Total comprehensive income for the year</b>	<b>1,292,162</b>	1,145,812

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

# THE SAUDI INVESTMENT BANK

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2013 and 2012

2013 (SAR'000)								
							Employee stock option shares	Total equity
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends		
Balance at the beginning of the year		5,500,000	2,931,000	(38,992)	597,979	416,600	(27,761)	9,378,826
Total comprehensive income for the year		-	-	5,328	1,286,834	-	-	1,292,162
Dividends paid	25	-	-	-	-	(416,600)	-	(416,600)
Proposed dividends	25	-	-	-	(477,500)	477,500	-	-
Employee stock option shares allocated		-	-	-	-	-	(35,368)	(35,368)
Employee stock option shares vested		-	-	-	-	-	33,755	33,755
Transfer to statutory reserve	17	-	322,000	-	(322,000)	-	-	-
Balance at the end of the year		5,500,000	3,253,000	(33,664)	1,085,313	477,500	(29,374)	10,252,775
2012 (SAR'000)								
							Employee stock option shares	Total equity
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends		
Balance at the beginning of the year		5,500,000	2,703,000	(272,767)	330,542	324,500	(27,979)	8,557,296
Total comprehensive income for the year		-	-	233,775	912,037	-	-	1,145,812
Dividends paid	25	-	-	-	-	(324,500)	-	(324,500)
Proposed dividends	25	-	-	-	(416,600)	416,600	-	-
Employee stock option shares allocated		-	-	-	-	-	(21,294)	(21,294)
Employee stock option shares vested		-	-	-	-	-	21,512	21,512
Transfer to statutory reserve	17	-	228,000	-	(228,000)	-	-	-
Balance at the end of the year		5,500,000	2,931,000	(38,992)	597,979	416,600	(27,761)	9,378,826

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

# THE SAUDI INVESTMENT BANK

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2013 and 2012

	Notes	2013 SAR'000	2012 SAR'000
<b>OPERATING ACTIVITIES</b>			
Net income for the year		1,286,834	912,037
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Accretion of discount on non-trading investments, net		(35,279)	(15,564)
Gains on non-trading investments, net	22	(158,175)	(20,872)
Gain on sale of property		(757)	(86,600)
Depreciation and amortization	9	71,697	70,041
Impairment charge for credit losses, net	7(b)	105,000	255,000
Impairment charge for non-trading investments, net	6 (f)	24,000	69,000
Share in earnings of associates	8	(160,825)	(146,517)
		<u>1,132,495</u>	<u>1,036,525</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(646,936)	(305,623)
Due from banks and other financial institutions maturing after ninety days from acquisition date		2,536,000	(374,638)
Loans and advances		(13,621,179)	(7,191,599)
Other assets		(339,893)	104,903
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		3,559,187	2,044,873
Customer deposits		16,630,276	3,643,079
Other liabilities		399,106	111,804
Net cash from / (used in) operating activities		<u>9,649,056</u>	<u>(930,676)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and matured non-trading investments		2,405,318	3,751,517
Purchase of non-trading investments		(9,015,615)	(5,568,489)
Dividends received from associates	8	56,624	74,571
Purchase of property and equipment	9	(77,382)	(29,731)
Proceeds from sale of property		804	124,476
Net cash used in investing activities		<u>(6,630,251)</u>	<u>(1,647,656)</u>
<b>FINANCING ACTIVITIES</b>			
Term loan proceeds	15	-	1,000,000
Repayment of term loan	15	-	(500,000)
Dividends paid	25	(416,600)	(324,500)
Net cash (used in) / from financing activities		<u>(416,600)</u>	<u>175,500</u>
Increase / (decrease) in cash and cash equivalents		<u>2,602,205</u>	<u>(2,402,832)</u>

Continued.

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**THE SAUDI INVESTMENT BANK**

**CONSOLIDATED STATEMENT OF CASH FLOWS - continued**

**For the years ended December 31, 2013 and 2012**

	<u>Notes</u>	<b>2013</b> <b>SAR'000</b>	2012 SAR'000
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		<b>8,500,379</b>	10,903,211
Increase / (decrease) in cash and cash equivalents		<b>2,602,205</b>	(2,402,832)
Cash and cash equivalents at the end of the year	26	<b>11,102,584</b>	<b>8,500,379</b>
<b>Supplemental special commission information</b>			
Special commission received during the year		<b>1,919,506</b>	1,590,959
Special commission paid during the year		<b>543,818</b>	314,870
<b>Supplemental non-cash information</b>			
Total other comprehensive income for the year		<b>5,328</b>	233,775
Employee stock option shares, net of allocation and vesting		<b>(1,613)</b>	218
Proposed dividends	25	<b>477,500</b>	<b>416,600</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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### 1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (2012: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank  
Head Office  
P. O. Box 3533  
Riyadh 11481, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries (collectively referred to as the "Group"):

- a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;
- b) "SAIB BNP Paribas Asset Management Company Limited" (AMCO), a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010240312 issued on 4 Thu Al Qada 1428H (corresponding to November 14, 2007), and is 55% owned by the Bank with the remaining 45% by Saudi and Foreign shareholders (in liquidation – see paragraph below for further details); and
- c) "Saudi Investment Real Estate Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The company has not commenced any significant operations.

In December 2011, a business transfer agreement was completed between Alistithmar Capital and AMCO whereby Alistithmar Capital acquired the business and net assets of AMCO. AMCO is in the process of liquidation.

### 2. Basis of preparation

#### a) Statement of compliance

These consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

#### b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis except for the following items in the consolidated statement of financial position:

- a) Assets and liabilities held for trading are measured at fair value;



**2. Basis of preparation – continued**

- b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;
- c) Available for sale investments are measured at fair value;
- d) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- e) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

During the years ended December 31, 2013 and 2012, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments.

**c) Functional and presentation currency**

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is the Group's functional currency. Except as indicated, financial information presented in SAR has been rounded off to the nearest thousand.

**d) Critical accounting judgements, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

**(i) Impairment for credit losses on loans and advances**

The Bank reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger and followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**(ii) Fair value of unquoted financial instruments**

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 6.

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 to sell the asset or transfer the liability takes place either:

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

**2. Basis of preparation – continued**

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical financial assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable market data; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each financial reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time for valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, and the related risks of the asset or liability, and the level of the fair value hierarchy as explained above.

**(iii) Impairment of available-for-sale equity and debt investments**

The Group exercises judgement in considering impairment on the available for sale equity and debt investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline in fair value is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Bank evaluates among other factors, the normal volatility in share/debt price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

**2. Basis of preparation – continued**

**(iv) Classification of held to maturity investments**

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

**(v) Determination of control over investees**

The control indicators set out in note 3 (b) are subject to management judgement. The Group also acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

**e) Going concern**

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

**3. Summary of significant accounting policies**

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

**a) Change in accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2012, as described in the annual 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:

- **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).
- **IFRS 11 Joint Arrangements:** IFRS 11 replaces IAS 31 Interests in Joint Ventures. The Standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.
- **IFRS 12 Disclosure of Interests in Other Entities:** IFRS 12 requires the 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.

**3. Summary of significant accounting policies**

- IFRS 13 Fair Value Measurements: IFRS 13 Standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The Standard 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.
- Amendments to IAS 1 Presentation of Financial Statements: The amendments to IAS 1 revise the way other comprehensive income items are presented.
- Amendments to IFRS 7 Financial Instruments - Disclosure: The amendments to IFRS 7 change the disclosure requirements to add information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also requires 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. All changes in the value of defined benefit plans will be recognised in income and other comprehensive income.
- IAS 27 Separate Financial Statements (2011): IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27- Consolidated and Separate Financial Statements. The requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.
- IAS 28 Investments in Associates and Joint Ventures (2011): The revisions to IAS 28 result from the incorporation of Joint ventures into IAS 28 - (2011), but the fundamental approach to accounting for equity accounted investments has not been changed.

The IASB has also published Annual Improvements to IFRSs: (2009-2011) that contains 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 distribution.
- IAS 34- Interim Financial Reporting: Segment assets and liabilities.

The adoption of the above standards and other amendments did not have a significant effect on the consolidated financial statements of the Group.

**b) Basis of consolidation**

These consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align them with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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### 3. Summary of significant accounting policies – continued

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Material inter-group balances and any material income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

#### c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds approximately 20% to 50% of the voting power or over which it has significant influence and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Bank's share of the net assets of the associates, less any impairment. Share in earnings of associates include the changes in the Bank's share of the net assets of the associates.

#### d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market or reference prices, discounted cash flow models, and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

##### (i) Derivatives held for trading

Any changes in the fair value of derivatives that may be held for trading purposes are taken directly to the consolidated income statement and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting including embedded derivatives.

**3. Summary of significant accounting policies – continued**

(ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through income statement. The embedded derivatives separated from the host are carried at estimated net fair value with changes in fair value recognised in the consolidated income statement.

(iii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships as described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

iii (a) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

iii (b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect the consolidated income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement.



**3. Summary of significant accounting policies – continued**

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognised, the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Bank revokes the designation, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated income statement.

**f) Foreign currencies**

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement except for differences arising on the retranslation of available for sale equity instruments. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**g) Offsetting financial instruments**

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

**h) Revenue / expense recognition**

Special commission income and expense - Special commission income and expense for all special commission-bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective yield is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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### 3. Summary of significant accounting policies – continued

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Exchange income / Loss - Exchange income/loss is recognised when earned/incurred.

Fee income from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognised on an accrual basis when the related service is provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, and are recognised as expenses as the services are received.

Dividend income - Dividend income is recognised when the right to receive payment is established.

Net trading income - Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense and dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

#### i) Repurchase agreements and reverse repurchase agreements

Underlying assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as available for sale. The counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the underlying assets. Amounts paid under these agreements are included in "Cash and balances with SAMA". The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

#### j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.



**3. Summary of significant accounting policies – continued**

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets or reference prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

**(i) Available for sale**

Available for sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates, or equity prices. Such investments are non-derivative investments that are designated as available for sale or not classified as another category of financial assets.

Investments which are classified as available for sale are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

Special commission income is recognised in the consolidated income statement on an effective yield basis. Dividend income is recognised in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognised in the consolidated income statement.

A security held as available for sale may be reclassified to “other investments held at amortized cost” if it otherwise would have met the definition of “other investments held at amortized cost” and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

**(ii) Held to maturity**

Investments having fixed or determinable payments and a fixed maturity and for which the Bank has a positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

However, sales or reclassifications in any of the following circumstances would not impact the Group's ability to use this classification:

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all of the assets original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

**3. Summary of significant accounting policies – continued**

**k) Loans and advances**

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

Loans and advances originated or acquired by the Group that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost less any amount written off and allowance for credit losses.

**l) Impairment of financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amount.

The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level. When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement and included in the relevant impairment charges.

Loans and advances whose terms have been renegotiated are no longer considered to be past due and are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans and advances continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

**(i) Impairment of financial assets held at amortized cost**

A financial asset or group of financial assets are classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or group of financial assets and where a loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

**3. Summary of significant accounting policies – continued**

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

**(ii) Impairment of available for sale financial assets**

For debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed and recognised in the consolidated income statement.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the consolidated income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in other comprehensive income. On derecognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

**m) Impairment of non-financial assets**

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indications exist, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversals are recognised in the consolidated income statement.

Impairment losses relating to goodwill are not reversed in future periods.

**3. Summary of significant accounting policies – continued**

**n) Other real estate**

The Bank, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of the loans and advances and the current fair value of the related properties, less any costs to sell, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the consolidated income statement.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated income statement.

**o) Property and equipment**

Property and equipment is stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

**p) Financial liabilities**

All money market deposits, customer deposits, term loans, and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged are measured at amortised cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resulting gain or loss is recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized.

**q) Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated income statement in impairment charges for credit losses, net. The premium received is recognized in the consolidated income statement in "Fee income from banking services, net" on a straight line basis over the life of the guarantee.

**3. Summary of significant accounting policies – continued**

**r) Provisions**

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

**s) Accounting for leases**

Leases entered into by the Bank as a lessee, are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

**t) Cash and cash equivalents**

For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

**u) Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to receive the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expired.

**v) Zakat and income taxes**

Zakat and income taxes are considered as liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of adjusted net income for the year under the income tax regulations.

Zakat and income tax are not charged to the Bank's consolidated income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

**w) Employees' incentive plans**

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognised over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option shares are recorded by the Bank at cost and are presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. The Bank has entered into a custody agreement with an independent third party to administer the Plan on behalf of its employees. Under the provisions of the agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 3. Summary of significant accounting policies – continued

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

#### x) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### y) Asset management services

The Bank offers asset management services to its customers, through a subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in available for sale investments and fees earned are included in fees from banking services, net.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

#### z) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

- i. Murabaha - an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
- ii. Istisna'a – an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
- iii. Ijarah – an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

### 4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2013 SAR'000	2012 SAR'000
Cash in hand	657,055	615,605
Reverse repurchase agreements	3,236,000	4,953,000
Sub total (note 26)	3,893,055	5,568,605
Statutory deposit	2,413,974	1,767,038
<b>Total</b>	<b>6,307,029</b>	<b>7,335,643</b>



# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 4. Cash and balances with SAMA - continued

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the Bank's day to day operations and therefore are not part of cash and cash equivalents.

### 5. Due from banks and other financial institutions

Due from banks and other financial institutions are summarized as follows:

	2013 SAR'000	2012 SAR'000
Current accounts	909,325	133,379
Money market placements	4,664,204	3,698,395
<b>Total</b>	<b>5,573,529</b>	<b>3,831,774</b>

### 6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	2013 (SAR'000)			2012 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	3,906,133	7,582,560	11,488,693	821,381	4,956,263	5,777,644
Floating rate securities	1,802,131	2,700,490	4,502,621	1,061,657	2,574,162	3,635,819
Equities	845,800	8,629	854,429	443,576	8,629	452,205
Mutual funds	36,495	-	36,495	214,365	24,838	239,203
Allowance for impairment	-	(22,786)	(22,786)	-	(112,600)	(112,600)
Available for sale, net	<b>6,590,559</b>	<b>10,268,893</b>	<b>16,859,452</b>	<b>2,540,979</b>	<b>7,451,292</b>	<b>9,992,271</b>

ii) Held to maturity

	2013 (SAR'000)			2012 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	-	396,257	396,257	50,000	405,090	455,090
Floating rate securities	650,000	-	650,000	650,000	-	650,000
Allowance for impairment	-	(209,214)	(209,214)	-	(185,400)	(185,400)
Held to maturity, net	<b>650,000</b>	<b>187,043</b>	<b>837,043</b>	<b>700,000</b>	<b>219,690</b>	<b>919,690</b>

iii) Investments, net

	2013 (SAR'000)			2012 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	3,906,133	7,978,817	11,884,950	871,381	5,361,353	6,232,734
Floating rate securities	2,452,131	2,700,490	5,152,621	1,711,657	2,574,162	4,285,819
Equities	845,800	8,629	854,429	443,576	8,629	452,205
Mutual funds	36,495	-	36,495	214,365	24,838	239,203
Allowance for impairment	-	(232,000)	(232,000)	-	(298,000)	(298,000)
Investments, net	<b>7,240,559</b>	<b>10,455,936</b>	<b>17,696,495</b>	<b>3,240,979</b>	<b>7,670,982</b>	<b>10,911,961</b>

Investments include SAR 5,781 million (2012: SAR 4,344 million), which have been pledged under repurchase agreements with other banks. The market value of such investments is SAR 5,841 million (2012: SAR 4,486 million).

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6. Investments, net – continued

b) The analysis of the composition of investments is as follows:

i) Available for sale

	2013 (SAR'000)			2012 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	7,879,925	3,608,768	11,488,693	5,224,652	552,992	5,777,644
Floating rate securities	2,895,598	1,607,023	4,502,621	2,315,726	1,320,093	3,635,819
Equities	844,300	10,129	854,429	441,076	11,129	452,205
Mutual funds	36,495	-	36,495	239,203	-	239,203
Allowance for impairment	-	(22,786)	(22,786)	(18,875)	(93,725)	(112,600)
Available for sale, net	<u>11,656,318</u>	<u>5,203,134</u>	<u>16,859,452</u>	<u>8,201,782</u>	<u>1,790,489</u>	<u>9,992,271</u>

ii) Held to maturity

	2013 (SAR'000)			2012 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	190,053	206,204	396,257	198,889	256,201	455,090
Floating rate securities	650,000	-	650,000	650,000	-	650,000
Allowance for impairment	(3,046)	(206,168)	(209,214)	-	(185,400)	(185,400)
Held to maturity, net	<u>837,007</u>	<u>36</u>	<u>837,043</u>	<u>848,889</u>	<u>70,801</u>	<u>919,690</u>

iii) Investments, net

	2013 (SAR'000)			2012 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	8,069,978	3,814,972	11,884,950	5,423,541	809,193	6,232,734
Floating rate securities	3,545,598	1,607,023	5,152,621	2,965,726	1,320,093	4,285,819
Equities	844,300	10,129	854,429	441,076	11,129	452,205
Mutual funds	36,495	-	36,495	239,203	-	239,203
Allowance for impairment	(3,046)	(228,954)	(232,000)	(18,875)	(279,125)	(298,000)
Investments, net	<u>12,493,325</u>	<u>5,203,170</u>	<u>17,696,495</u>	<u>9,050,671</u>	<u>1,861,290</u>	<u>10,911,961</u>

The unquoted securities above are principally comprised of Saudi Government Development Bonds, Saudi Treasury Bills, and certain Saudi Corporate Bonds. Equities reported under available for sale investments include unquoted shares of SAR 10.1 million (2012: SAR 11.1 million) that are carried at cost, as their fair value cannot be reliably measured.



# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 6. Investments, net – continued

c) The analysis of unrealized gains and losses and fair values of held to maturity investments is as follows:

	2013 (SAR'000)				2012 (SAR'000)			
	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Fixed rate securities	187,043	18,804	(8,016)	197,831	269,690	18,556	(18,642)	269,604
Floating rate securities	650,000	3,250	-	653,250	650,000	325	-	650,325
Total	<u>837,043</u>	<u>22,054</u>	<u>(8,016)</u>	<u>851,081</u>	<u>919,690</u>	<u>18,881</u>	<u>(18,642)</u>	<u>919,929</u>

d) The analysis of investments, net by counterparty is as follows:

	2013 SAR'000	2012 SAR'000
Government and quasi-Government	4,536,375	1,376,045
Corporate	3,825,332	6,063,568
Banks and other financial institutions	9,334,788	3,472,348
Total	<u>17,696,495</u>	<u>10,911,961</u>

e) The credit risk exposure of investments is as follows:

	2013 SAR'000	2012 SAR'000
Investment grade	14,509,938	9,239,270
Non investment grade	388,238	276,476
Unrated	2,798,319	1,396,215
Total	<u>17,696,495</u>	<u>10,911,961</u>

Investment grade securities generally have external ratings. Unrated investment securities include certain Saudi corporate securities, Saudi equities and mutual funds, and other private equity investments.

f) The movement of allowance for impairment on investments is as follows:

	2013 SAR'000	2012 SAR'000
Balance at the beginning of the year	298,000	237,000
Provided during the year	24,000	69,000
Amounts reversed during the year	(90,000)	(8,000)
Balance at the end of the year	<u>232,000</u>	<u>298,000</u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

	2013 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	4,260,481	9,368,077	34,168,744	78,629	47,875,931
Non performing loans and advances	298,732	96,283	-	-	395,015
Total loans and advances	4,559,213	9,464,360	34,168,744	78,629	48,270,946
Allowance for credit losses	(185,969)	(182,978)	(335,128)	-	(704,075)
Loans and advances, net	4,373,244	9,281,382	33,833,616	78,629	47,566,871

  

	2012 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	3,881,863	6,178,170	24,300,368	56,433	34,416,834
Non performing loans and advances	410,707	39,639	-	-	450,346
Total loans and advances	4,292,570	6,217,809	24,300,368	56,433	34,867,180
Allowance for credit losses	(352,288)	(72,562)	(391,638)	-	(816,488)
Loans and advances, net	3,940,282	6,145,247	23,908,730	56,433	34,050,692

Loans and advances above include non-interest based banking products in respect of Murabaha agreements, Istisna'a and Ijarah which are stated at amortized cost of SAR 23,255 million (2012: SAR 15,260 million).

b) The movement in the allowance for credit losses is as follows:

	2013 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	352,288	72,562	391,638	816,488
Provided / (reversed) during the year	(67,602)	150,161	22,441	105,000
Bad debts written off	(98,717)	(50,941)	(78,990)	(228,648)
Recoveries of amounts previously written off	-	11,196	39	11,235
Balance at the end of the year	185,969	182,978	335,128	704,075

  

	2012 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	1,526,308	58,335	660,957	2,245,600
Provided / (reversed) during the year	233,711	44,696	(23,407)	255,000
Bad debts written off	(1,407,731)	(37,755)	(245,912)	(1,691,398)
Recoveries of amounts previously written off	-	7,286	-	7,286
Balance at the end of the year	352,288	72,562	391,638	816,488

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 7. Loans and advances, net – continued

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances:

	2013 SAR'000	2012 SAR'000
Excellent	39,327	649,054
Strong	15,688,603	12,112,855
Average	14,151,192	8,996,429
Acceptable	7,697,214	5,363,146
Marginal	641,073	693,624
Watch	35,987	44,015
Unrated	9,094,885	6,113,006
Total	47,348,281	33,972,129

The loans and advances that are neither past due nor impaired are described as follows:

Excellent - leader in a stable industry. Better than peers' financials and cash flow. Has access to financial markets under normal market conditions.

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances consist of performing consumer and other loans.

(ii) Past due but not impaired loans and advances:

	2013 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	29,136	11,204	40,340
From 31 days to 90 days	101,817	46,217	148,034
From 91 days to 180 days	88,231	87,130	175,361
More than 180 days	163,915	-	163,915
Total	383,099	144,551	527,650

**THE SAUDI INVESTMENT BANK**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2013 and 2012**

**7. Loans and advances, net – continued**

	2012 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	173,184	12,216	185,400
From 31 days to 90 days	9,807	11,232	21,039
From 91 days to 180 days	29,215	36,827	66,042
More than 180 days	169,413	2,811	172,224
Total	381,619	63,086	444,705

- (iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

	2013 (SAR'000)		
	Performing	Non performing	Allowance for credit losses
Government and quasi-Government	388,200	-	(3,882)
Banks and other financial services	2,530,785	-	(25,308)
Agriculture and fishing	750,683	3,913	(10,929)
Manufacturing	6,895,716	21,024	(86,790)
Mining and quarrying	419,885	-	(4,199)
Building and construction	4,712,652	-	(47,127)
Commerce	10,390,307	184,273	(170,199)
Transportation and communication	215,849	-	(2,158)
Services	2,896,237	14,051	(44,346)
Consumer loans	9,368,077	96,283	(182,978)
Other	9,307,540	75,471	(126,159)
Total	47,875,931	395,015	(704,075)

	2012 (SAR'000)		
	Performing	Non performing	Allowance for credit losses
Government and quasi-Government	374,484	-	(3,745)
Banks and other financial services	1,314,467	-	(13,145)
Agriculture and fishing	20,417	-	(204)
Manufacturing	4,332,764	31,216	(98,028)
Mining and quarrying	496,890	-	(4,969)
Building and construction	2,859,837	250	(29,025)
Commerce	10,772,057	2,918	(113,266)
Transportation and communication	51,481	-	(515)
Services	1,503,846	11,871	(42,400)
Consumer loans	6,178,170	39,639	(72,562)
Other	6,512,421	364,452	(438,629)
Total	34,416,834	450,346	(816,488)

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 8) Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	<b>2013</b>	2012
Amex (Saudi Arabia) Limited ("AMEX")	<b>50%</b>	50%
Saudi Orix Leasing Company ("ORIX")	<b>38%</b>	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	<b>32%</b>	32%
Mediterranean and Gulf Cooperative Insurance and Reinsurance Co. ("MEDGULF")	<b>19%</b>	19%

The Bank also has a 20% interest in Naeem Investment Company which has no operations.

(b) The movement of investments in associates is summarized as follows:

	<b>2013 SAR'000</b>	2012 SAR'000
Balance at beginning of the year	<b>965,902</b>	894,672
Share of income	<b>160,825</b>	146,517
Dividends	<b>(56,624)</b>	(74,571)
Share of other comprehensive income / (loss)	<b>545</b>	(716)
Balance at end of the year	<b>1,070,648</b>	965,902

The shares of Medgulf are traded on the Saudi stock exchange. As of December 31, 2013, the market value of the Bank's 19% investment in Medgulf is approximately SAR 663.1 million (2012: 428.6 million).

(c) The Bank's share of the associates' financial statements is summarized below:

	<b>2013 (SAR'000)</b>			
	<b>MEDGULF</b>	<b>AMEX</b>	<b>ORIX</b>	<b>AMLAK</b>
Total assets	<b>242,852</b>	<b>186,761</b>	<b>701,819</b>	<b>609,622</b>
Total liabilities	<b>53,624</b>	<b>94,129</b>	<b>493,391</b>	<b>281,506</b>
Total equity	<b>189,228</b>	<b>92,632</b>	<b>208,428</b>	<b>328,116</b>
Total income	<b>(34,389)</b>	<b>161,353</b>	<b>82,241</b>	<b>40,711</b>
Total expenses	<b>2,178</b>	<b>96,206</b>	<b>44,164</b>	<b>17,428</b>

  

	<b>2012 (SAR'000)</b>			
	<b>MEDGULF</b>	<b>AMEX</b>	<b>ORIX</b>	<b>AMLAK</b>
Total assets	234,114	150,931	618,819	451,151
Total liabilities	8,745	81,111	441,990	146,622
Total equity	225,369	69,820	176,829	304,529
Total income	38,809	139,658	52,959	32,122
Total expenses	557	87,508	19,353	15,677

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 9. Property and equipment, net

Property and equipment, net is summarized as follows:

	2013 and 2012 (SAR'000)				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total 2013	Total 2012
<u>Cost</u>					
Balance at the beginning of the year	918,199	54,010	373,094	1,345,303	1,318,573
Additions	30,405	6,940	40,037	77,382	29,731
Disposals	-	-	(6,719)	(6,719)	(3,001)
Balance at the end of the year	948,604	60,950	406,412	1,415,966	1,345,303
<u>Accumulated depreciation</u>					
Balance at the beginning of the year	141,730	41,202	295,475	478,407	411,256
Charge for the year	34,416	5,524	31,757	71,697	70,041
Disposals	-	-	(6,672)	(6,672)	(2,890)
Balance at the end of the year	176,146	46,726	320,560	543,432	478,407
<u>Net book value</u>					
As of December 31, 2013	772,458	14,224	85,852	872,534	
As of December 31, 2012	776,469	12,808	77,619		866,896

### 10. Other assets

Other assets are summarized as follows:

	2013 SAR'000	2012 SAR'000
Accrued special commission receivable:		
- Loans and advances	279,610	326,925
- Investments	117,433	78,301
- Banks and other financial institutions	9,350	3,327
Total accrued special commission receivable	406,393	408,553
Positive fair value of derivatives (note 11)	276,751	93,794
Zakat and income tax due from shareholders (note 25)	111,624	110,188
Other real estate	152,836	152,836
Customer receivables	202,341	129,124
Property and equipment pending completion	83,723	78,243
All other assets	174,639	131,044
Total	1,408,307	1,103,782

### 11. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading and hedging purposes:

#### a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency commission rate swaps, notional amounts, and fixed and floating commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

**11. Derivatives - continued**

**b) Forwards and futures**

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

**c) Forward rate agreements**

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

**d) Options**

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below:

**a) Held for trading purposes**

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

**b) Held for hedging purposes**

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions.

The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 11. Derivatives - continued

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. The total notional amounts are not indicative of the Bank's exposure to credit risk nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercisable from 2013 onwards for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option, based on pre-determined formulas included in the agreement. As of December 31, 2013, the estimated fair value of this option is approximately SAR 108.2 million (2012: SAR 14.1 million), and has not been included in the table below.

c) Derivative financial instruments are summarized as follows:

	Notional amounts by term to maturity							
	2013 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	9,736	8,645	6,465,351	5,152,397	1,312,954	-	-	1,973,530
Foreign exchange options	82,970	82,599	1,921,591	66,446	168,000	1,687,145	-	424,424
Commission rates swaps	39,642	38,959	2,520,000	-	500,000	379,870	1,640,130	2,111,585
Held as fair value hedges:								
Commission rate swaps	36,208	84,817	2,546,252	220,000	927,130	1,399,122	-	2,133,583
Total	168,556	215,020	13,453,194	5,438,843	2,908,084	3,466,137	1,640,130	6,643,122
	Notional amounts by term to maturity							
	2012 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	7,617	1,250	1,979,794	1,761,672	218,122	-	-	1,290,452
Foreign exchange options	2,542	2,274	513,002	417,920	75,029	20,003	50	216,737
Commission rates swaps	26,250	24,243	730,000	-	-	730,000	-	648,796
Held as fair value hedges:								
Commission rate swaps	43,286	114,581	2,546,093	-	-	2,452,328	93,765	2,262,869
Total	79,695	142,348	5,768,889	2,179,592	293,151	3,202,331	93,815	4,418,854

The gains during the year on hedging instruments for fair value hedges were SAR 22.7 million (2012: losses of SAR 21.8 million). The losses on hedged items attributable to hedged risk were SAR 24.7 million (2012: gains of SAR 51.6 million).

The net negative fair value of all derivatives is approximately SAR 46.5 million (2012: SAR negative 62.7 million).

Approximately 67% (2012: 95%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 30% (2012: 76%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.



# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2013 SAR'000	2012 SAR'000
Current accounts	81,313	49,607
Repurchase agreements	4,387,664	4,066,459
Money market deposits	5,359,255	2,152,979
Total	<u>9,828,232</u>	<u>6,269,045</u>

### 13. Customer deposits

Customer deposits are summarized as follows:

	2013 SAR'000	2012 SAR'000
Demand	13,332,031	9,517,589
Savings	641,354	558,128
Time	42,111,729	29,868,401
Others	958,733	469,453
Total	<u>57,043,847</u>	<u>40,413,571</u>

Time deposits include deposits against sale of securities of SAR 1,541 million (2012: SAR Nil) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 411 million (2012: SAR 273 million) of margins held for irrevocable commitments.

The above amounts include foreign currency deposits (equivalent to Saudi Riyals) as follows:

	2013 SAR'000	2012 SAR'000
Demand	398,770	379,528
Savings	40,921	104,382
Time	16,505,126	6,835,356
Others	98,385	86,996
Total	<u>17,043,202</u>	<u>7,406,262</u>

### 14. Other liabilities

Other liabilities are summarized as follows:

	2013 SAR'000	2012 SAR'000
Accrued special commission payable		
– Banks and other financial institutions	15,253	5,822
– Customer deposits	141,050	125,077
Total accrued special commission payable	<u>156,303</u>	<u>130,899</u>
Negative fair value of derivatives (note 11)	215,020	142,348
End of service and other employee - related benefits	352,748	340,497
Accrued expenses and other reserves	317,953	184,678
Deferred special commission and fee income	204,826	148,556
All other liabilities	<u>123,709</u>	<u>58,230</u>
Total	<u>1,370,559</u>	<u>1,005,208</u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 15. Term loans

On April 7, 2009, the Bank entered into a three-year term loan facility agreement for an amount of SAR 500 million for general corporate purposes. The facility was repaid in April 2012.

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in May 2016. On June 24, 2012, the Bank entered into another five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in September 2017.

The term loans bear commission at variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related agreements. The agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance as of December 31, 2013.

### 16. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 550 million shares of SAR 10 each. The ownership of the Bank's share capital is as follows:

	2013		2012	
	SAR'000	%	SAR'000	%
Saudi shareholders	4,950,000	90.0	4,950,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	412,500	7.5	412,500	7.5
Mizuho Corporate Bank Limited	137,500	2.5	137,500	2.5
	<u>5,500,000</u>	<u>100.0</u>	<u>5,500,000</u>	<u>100.0</u>

### 17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 322 million has been transferred from 2013 net income (2012: SAR 228 million). The statutory reserve is not available for distribution.

### 18. Commitments and contingencies

#### a) Legal proceedings

As of December 31, 2013 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is not probable that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome.

#### b) Capital commitments

As of December 31, 2013, the Bank had capital commitments of SAR 97.9 million (2012: SAR 1.6 million) in respect of construction for new branches and expansion of its head office.

#### c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 18. Commitments and contingencies - continued

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Bank's commitments and contingencies are as follows:

	2013 (SAR'000)				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	1,495,897	884,077	327,468	-	2,707,442
Letters of guarantee	1,518,107	3,114,863	2,660,991	68,341	7,362,302
Acceptances	454,502	643,667	5,843	-	1,104,012
Irrevocable commitments to extend credit	-	-	277,606	241,723	519,329
Total	<u>3,468,506</u>	<u>4,642,607</u>	<u>3,271,908</u>	<u>310,064</u>	<u>11,693,085</u>

  

	2012 (SAR'000)				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	1,043,538	236,670	304,856	-	1,585,064
Letters of guarantee	1,523,001	2,381,142	1,623,587	1,831	5,529,561
Acceptances	325,714	68,589	3,452	-	397,755
Irrevocable commitments to extend credit	-	-	-	282,682	282,682
Total	<u>2,892,253</u>	<u>2,686,401</u>	<u>1,931,895</u>	<u>284,513</u>	<u>7,795,062</u>

The outstanding unused portion of commitments as of December 31, 2013 which can be revoked unilaterally at any time by the Bank, amounts to SAR 17,675 million (2012: SAR 17,158 million).

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 18. Commitments and contingencies - continued

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2013 SAR'000	2012 SAR'000
Government and quasi-Government	5,827,479	4,601,680
Corporate	5,273,684	2,913,305
Banks and other financial institutions	325,750	193,437
Others	266,172	86,640
Total	11,693,085	7,795,062

#### d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, bank and non-government bonds.

Assets pledged as collateral with other financial institutions for security are as follows:

	2013 (SAR'000)		2012 (SAR'000)	
	Assets	Related Liabilities	Assets	Related Liabilities
Available for sale investments	5,575,047	4,191,640	4,137,377	3,861,443
Held to maturity investments	206,220	196,024	206,124	205,016
Total	5,781,267	4,387,664	4,343,501	4,066,459

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counter parties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as an intermediary.

#### e) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	2013 SAR'000	2012 SAR'000
Less than 1 year	27,635	27,349
1 to 5 years	75,282	74,386
Over 5 years	78,238	18,906
Total	181,155	120,641

### 19. Special commission income and expense

Special commission income and expense is summarized as follows:

	2013 SAR'000	2012 SAR'000
Special commission income:		
Available for sale investments	352,925	215,701
Held to maturity investments	30,478	31,057
Total special commission income for investments	383,403	246,758
Loans and advances	1,420,317	1,282,257
Due from banks and other financial institutions	80,441	61,801
Total	1,884,161	1,590,816

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 19. Special commission income and expense - continued

	2013 SAR'000	2012 SAR'000
Special commission expense:		
Customer deposits	380,195	276,538
Due to banks and other financial institutions	101,990	46,266
Term loans	36,994	26,079
Total	519,179	348,883

### 20. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2013 SAR'000	2012 SAR'000
Fee income:		
- Share trading and fund management	85,437	94,499
- Trade finance	99,561	73,586
- Corporate and retail finance	197,246	128,356
- Other banking services	38,186	42,032
Total fee income	420,430	338,473
Fee expense:		
- Custodial services	20,146	21,247
- Other banking services	6,079	2,119
Total fee expense	26,225	23,366
Fee income from banking services, net	394,205	315,107

### 21. Dividend income

Dividend income is summarized as follows:

	2013 SAR'000	2012 SAR'000
Dividends received from available for sale investments	21,963	16,281

### 22. Gains on non-trading investments, net

Gains on non-trading investments, net are summarized as follows:

	2013 SAR'000	2012 SAR'000
Gains	157,604	20,624
Impairment reserve reversals	90,000	8,000
Losses	(89,429)	(7,752)
Gains on non – trading investments, net	158,175	20,872

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 23. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable and other compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2013 and 2012.

Category	Number of Employees	2013 (SAR'000)			
		Fixed Compensation	Variable Compensation		
			Cash	Shares	Total
Senior executives requiring SAMA no objection	15	29,992	12,175	3,263	15,438
Employees engaged in risk taking activities	117	51,213	10,594	2,778	13,372
Employees engaged in control functions	168	39,763	7,512	1,736	9,248
Other employees	1,029	169,716	26,298	5,431	31,729
Outsourced employees	89	10,631	2,174	183	2,357
Totals	1,418	301,315	58,753	13,391	72,144

Variable and other compensation accrued	81,000
Other employee benefits and related expenses	56,705
Total salaries and employee related expenses	439,020

Category	Number of Employees	2012 (SAR'000)			
		Fixed Compensation	Variable Compensation		
			Cash	Shares	Total
Senior executives requiring SAMA no objection	15	31,080	9,545	2,470	12,015
Employees engaged in risk taking activities	92	38,999	6,663	1,566	8,229
Employees engaged in control functions	151	32,218	6,289	1,062	7,351
Other employees	906	142,477	20,840	3,189	24,029
Outsourced employees	89	10,398	1,729	129	1,858
Totals	1,253	255,172	45,066	8,416	53,482

Variable and other compensation accrued	63,588
Other employee benefits and related expenses	43,071
Total salaries and employee related expenses	361,831

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which is comprised of four board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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### 23. Compensation and related governance and practices - continued

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure the Bank's remuneration policies are in compliance with SAMA guidelines on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives. The Balanced Scorecard concept is used and objectives have typically been categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are then used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, employee development, lending guidelines, internal controls, and procedures. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Policy has been established and compliance thereto is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Certain employees are also covered under a Key Employee Stock Option Grant Plan.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2013 was SAR 45.4 million (2012: SAR 43.1 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2013 was SAR 3.0 million (2012: SAR 5.8 million).

### 24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated by dividing the net income for the year attributable to the equity holders of the Bank by 550 million shares (see Note 16).

### 25. Proposed dividends, zakat and income tax

In 2013, the Board of Directors proposed a cash dividend of SAR 440 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 37.5 million. The Board of Directors has also proposed a bonus share issue of 50,000,000 shares with a par value of SAR 10 per share, or one bonus share for each eleven shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an ordinary general assembly meeting expected to convene in 2014.

In 2012, The Board of Directors proposed a cash dividend of SAR 385 million equal to SAR 0.70 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 31.6 million. The proposed dividend was approved by the Bank's shareholders in an ordinary general assembly meeting held on Rabi' II 29, 1434 (corresponding to March 11, 2013). The net dividends were paid to the Bank's shareholders thereafter.

In 2011, the Board of Directors proposed a gross cash dividend for the year amounting to SAR 324.5 million. The dividend was equal to SAR 0.50 per share (SAR 275.0 million), plus the Zakat to be withheld from the Saudi shareholders, amounting to SAR 0.10 per share (SAR 49.5 million). The proposed dividend was approved by the Bank's shareholders in an ordinary general assembly meeting held on Rabi'II 25, 1433 (corresponding to March 18, 2012). The net dividends were paid to the Bank's shareholders thereafter.

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting Zakat and any unreimbursed income tax, as follows:



# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 25. Proposed dividends, Zakat and income tax - continued

a) Saudi shareholders:

Zakat attributable to the Saudi shareholders for the years 2006 through 2012 amounts to approximately SAR 73.4 million. Estimated Zakat attributable to Saudi shareholders for 2013 is approximately SAR 25.3 million. The total Zakat attributable to Saudi shareholders through 2013 totaling approximately SAR 98.7 million will be deducted from their share of future dividends. The cumulative Zakat from 2006 through 2013 amounts to approximately SAR 0.22 per share.

b) Foreign shareholders:

Estimated Income Tax attributable to the non-Saudi shareholders for 2013 is approximately SAR 22.4 million. There is no unreimbursed income tax for the years prior to 2013.

The Bank has received assessments for additional Zakat, Income tax, and withholding tax totaling approximately SAR 16.7 million relating to the Bank's 2003 through 2008 Zakat, Income tax, and withholding tax filings. The Bank has filed an appeal for these assessments.

The Bank has received assessments for additional Zakat totalling approximately SAR 185 million relating to the Bank's 2011 and 2010 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. The Bank, along with other Saudi Banks, has formally raised this issue with the Bank's regulator for a satisfactory resolution to this Saudi Banking Industry issue. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

### 26. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows is comprised of the following:

	2013 SAR'000	2012 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	3,893,055	5,568,605
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	7,209,529	2,931,774
Total	11,102,584	8,500,379

### 27. Business segments

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Decision Maker in order to allocate resources to the segments and to assess their performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the consolidated income statement. There are no material items of income or expense between the operating segments. Segment assets and liabilities are comprised of operating assets and liabilities.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia. The Bank's reportable segments are as follows:

#### Retail banking

Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

#### Corporate banking

Loans, deposits and other credit products for corporate and institutional customers.



# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 27. Business segments - continued

#### Treasury

Money market, investments, and other treasury services.

#### Asset management and brokerage

Dealing, managing, advising and custody of securities services.

Commission is charged to operating segments based on Funds Transfer Price rates. All of the segment revenue is from external customers.

- a) The segment information provided to the Bank's Board of Directors which includes the reportable segments for the Bank's total assets and liabilities of December 31, 2013 and 2012, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2013 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage- ment and Brokerage	Total
Total assets	<u>19,760,596</u>	<u>30,357,079</u>	<u>29,600,375</u>	<u>777,363</u>	<u>80,495,413</u>
Total liabilities	<u>19,283,662</u>	<u>5,184,039</u>	<u>45,738,965</u>	<u>35,972</u>	<u>70,242,638</u>
Net special commission income	531,527	369,244	445,120	19,091	1,364,982
Fee income from banking services, net	113,936	208,071	6,621	65,577	394,205
Other operating income	<u>32,725</u>	<u>28,039</u>	<u>182,169</u>	<u>14,545</u>	<u>257,478</u>
Total operating income	<u>678,188</u>	<u>605,354</u>	<u>633,910</u>	<u>99,213</u>	<u>2,016,665</u>
Operating expenses before impairment charges	381,259	178,756	135,586	66,055	761,656
Impairment charges, net	<u>28,392</u>	<u>76,608</u>	<u>24,000</u>	-	<u>129,000</u>
Total operating expenses	<u>409,651</u>	<u>255,364</u>	<u>159,586</u>	<u>66,055</u>	<u>890,656</u>
Income from operating activities	<u>268,537</u>	<u>349,990</u>	<u>474,324</u>	<u>33,158</u>	<u>1,126,009</u>
Share in earnings from associates	-	-	160,825	-	160,825
Net income for the year	<u>268,537</u>	<u>349,990</u>	<u>635,149</u>	<u>33,158</u>	<u>1,286,834</u>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 27. Business segments – continued

	2012 (SAR'000)				Total
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	
Total assets	14,932,160	22,204,027	21,361,786	568,677	59,066,650
Total liabilities	14,073,387	5,233,452	30,360,817	20,168	49,687,824
Net special commission income	550,098	399,583	278,185	14,067	1,241,933
Fee income from banking services, net	126,587	115,070	18	73,432	315,107
Other operating income	11,021	105,936	46,238	1,367	164,562
Total operating income	687,706	620,589	324,441	88,866	1,721,602
Operating expenses before impairment charges	380,775	109,726	63,250	78,331	632,082
Impairment charges, net	54,461	200,539	69,000	-	324,000
Total operating expenses	435,236	310,265	132,250	78,331	956,082
Income from operating activities	252,470	310,324	192,191	10,535	765,520
Share in earnings from associates	-	-	146,517	-	146,517
Net income for the year	252,470	310,324	338,708	10,535	912,037

b) The Bank's credit exposure by business segment is as follows:

	2013 (SAR'000)				Total
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	
Statement of consolidated financial position assets	16,469,537	29,882,427	28,054,266	737,313	75,143,543
Commitments and contingencies	4,461,768	3,861,389	238,514	-	8,561,671
Derivatives	-	-	600,561	-	600,561

	2012 (SAR'000)				Total
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	
Statement of consolidated financial position assets	11,922,454	21,672,334	15,633,970	531,571	49,760,329
Commitments and contingencies	2,092,765	1,300,437	86,346	-	3,479,548
Derivatives	-	-	126,360	-	126,360

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash and balances with SAMA, property and equipment, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

## THE SAUDI INVESTMENT BANK

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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#### 28. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-statement of consolidated financial position financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of major rating agencies, where available.

The Bank seeks to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes collateral wherever appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The debt securities included in the investment portfolio are mainly corporate and sovereign risk. Analysis of investments by counter-party is provided in Note 6. For details of the composition of loans and advances refer to Note 7. Information on credit risk relating to derivative instruments is provided in Note 11 and for commitments and contingencies in Note 18. The information on the Bank's credit exposure by business segment is given in Note 27. The information on credit risk exposure and their relative regulated risk weights is also provided in Note 34.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions respectively. The Bank determines each individual borrower's grade based on specific objective and subjective financial and business assessments criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Bank conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established within the Bank for that purpose.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 29. Geographical concentration

- a) The distribution by geographical region for major assets, commitments and contingencies and credit exposures is as follows:

	2013 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	6,280,647	761	10,376	15,245	-	-	6,307,029
Due from banks and other financial institutions	2,900,098	1,109,695	726,066	835,551	2,042	77	5,573,529
Investments, net	7,982,038	5,999,112	1,423,285	2,058,803	-	233,257	17,696,495
Loans and advances, net	47,461,695	105,176	-	-	-	-	47,566,871
Investments in associates	1,070,648	-	-	-	-	-	1,070,648
Total	<u>65,695,126</u>	<u>7,214,744</u>	<u>2,159,727</u>	<u>2,909,599</u>	<u>2,042</u>	<u>233,334</u>	<u>78,214,572</u>
Commitments and contingencies	<u>9,802,766</u>	<u>425,656</u>	<u>588,184</u>	<u>563,267</u>	<u>307,855</u>	<u>5,357</u>	<u>11,693,085</u>
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	<u>7,066,393</u>	<u>272,213</u>	<u>455,454</u>	<u>529,911</u>	<u>233,635</u>	<u>4,065</u>	<u>8,561,671</u>
Derivatives	<u>152,364</u>	<u>46,914</u>	<u>401,283</u>	-	-	-	<u>600,561</u>
2012 (SAR'000)							
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	7,309,269	492	7,179	18,703	-	-	7,335,643
Due from banks and other financial institutions	2,762,638	266,266	692,872	109,091	837	70	3,831,774
Investments, net	3,877,438	3,877,180	1,305,646	1,503,522	-	348,175	10,911,961
Loans and advances, net	34,050,692	-	-	-	-	-	34,050,692
Investments in associates	965,902	-	-	-	-	-	965,902
Total	<u>48,965,939</u>	<u>4,143,938</u>	<u>2,005,697</u>	<u>1,631,316</u>	<u>837</u>	<u>348,245</u>	<u>57,095,972</u>
Commitments and contingencies	<u>6,699,283</u>	<u>118,704</u>	<u>287,518</u>	<u>309,649</u>	<u>379,580</u>	<u>328</u>	<u>7,795,062</u>
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	<u>2,993,492</u>	<u>24,129</u>	<u>106,684</u>	<u>267,863</u>	<u>87,316</u>	<u>64</u>	<u>3,479,548</u>
Derivatives	<u>27,074</u>	<u>23,492</u>	<u>75,794</u>	-	-	-	<u>126,360</u>

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-statement of consolidated financial position amounts into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment.

- b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2013 and 2012 are entirely in the Kingdom of Saudi Arabia.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 30. Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

#### a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Bank currently has trading book exposures in foreign exchange contracts and commission rate swaps.

#### b) Market risk-banking book

Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk and equity price risk.

##### (i) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments and obligations. The Board of Directors has established commission rate gap limits for stipulated periods. The Bank monitors positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably plausible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The reasonably plausible change is estimated based on the relevant commission rate movements during the last five years (2009-2013). The reasonably plausible change is estimated based on the relevant commission rate movements during the last five years (2009 – 2013). A positive effect shows a potential net increase in the consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2013 and 2012, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as of December 31, 2013 and 2012 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands.

Currency	Increase (decrease) in basis	2013 SAR'000	2013 Sensitivity of Equity (SAR'000)				
		Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+157/-24	-1,824/+279	-5,005/+765	-3,988 /+610	-	-80,508/+12,307	-89,501/+13,682
USD	+100/-18	-90,408/+16,273	-214/+39	-638/+115	-31,469/+5,664	-52,394/+9,431	-84,715/+15,249
EUR	+200/-66	+4,269/-1,409	-	-	-	-	-
Currency	Increase (decrease) in basis	2012 SAR'000	2012 Sensitivity of Equity (SAR'000)				
		Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+28/-22	+45,104/-35,439	-	+420/-330	-	-	+420/-330
USD	+29/-21	+14,238/-10,311	-	-	+10,311/-7,467	+5,562/-4,028	+15,873/-11,495
EUR	+92/-97	+682/-719	-	+470/-496	-	-	+470/-496

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 30. Market risk - continued

The Bank manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market commission rates on its financial position and cash flows.

The Board of Directors sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored by the treasury department.

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through commission rate risk management strategies.

The tables below summarize the Bank's exposure to commission rate risks. Included in the tables are the Bank's assets, liabilities, and off-balance sheet amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2013 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
<b>Assets</b>						
Cash and balances with SAMA	3,236,000	-	-	-	3,071,029	6,307,029
Due from banks and other financial institutions	3,064,204	2,509,325	-	-	-	5,573,529
Investments, net	6,848,413	1,753,618	3,940,566	4,287,452	866,446	17,696,495
Loans and advances, net	26,158,933	14,422,670	6,865,279	119,989	-	47,566,871
Investments in associates	-	-	-	-	1,070,648	1,070,648
Property and equipment, net	-	-	-	-	872,534	872,534
Other assets	409,592	998,715	-	-	-	1,408,307
<b>Total</b>	<b>39,717,142</b>	<b>19,684,328</b>	<b>10,805,845</b>	<b>4,407,441</b>	<b>5,880,657</b>	<b>80,495,413</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions	9,040,919	787,313	-	-	-	9,828,232
Customer deposits	27,858,949	14,454,640	208,770	-	14,521,488	57,043,847
Other liabilities	184,847	1,185,712	-	-	-	1,370,559
Term loans	2,000,000	-	-	-	-	2,000,000
Equity	-	-	-	-	10,252,775	10,252,775
<b>Total</b>	<b>39,084,715</b>	<b>16,427,665</b>	<b>208,770</b>	<b>-</b>	<b>24,774,263</b>	<b>80,495,413</b>
Commission rate sensitivity-On balance sheet	632,427	3,256,663	10,597,075	4,407,441	(18,893,606)	-
Commission rate sensitivity-Off balance sheet	2,826,122	(1,427,132)	(1,398,990)	-	-	-
<b>Total commission rate sensitivity gap</b>	<b>3,458,549</b>	<b>1,829,531</b>	<b>9,198,085</b>	<b>4,407,441</b>	<b>(18,893,606)</b>	<b>-</b>
Cumulative commission rate sensitivity gap	3,458,549	5,288,080	14,486,165	18,893,606	-	-

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 30. Market risk - continued

	2012 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
<b>Assets</b>						
Cash and balances with SAMA	4,953,000	-	-	-	2,382,643	7,335,643
Due from banks and other financial institutions	2,931,774	900,000	-	-	-	3,831,774
Investments, net	3,804,419	609,105	3,555,664	2,217,903	724,870	10,911,961
Loans and advances, net	19,786,866	9,411,377	4,798,527	53,922	-	34,050,692
Investments in associates	-	-	-	-	965,902	965,902
Property and equipment, net	-	-	-	-	866,896	866,896
Other assets	-	-	-	-	1,103,782	1,103,782
<b>Total assets</b>	<b>31,476,059</b>	<b>10,920,482</b>	<b>8,354,191</b>	<b>2,271,825</b>	<b>6,044,093</b>	<b>59,066,650</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions	6,219,438	49,607	-	-	-	6,269,045
Customer deposits	24,210,355	5,995,896	493,770	-	9,713,550	40,413,571
Other liabilities	-	-	-	-	1,005,208	1,005,208
Term loans	2,000,000	-	-	-	-	2,000,000
Equity	-	-	-	-	9,378,826	9,378,826
<b>Total liabilities and equity</b>	<b>32,429,793</b>	<b>6,045,503</b>	<b>493,770</b>	<b>-</b>	<b>20,097,584</b>	<b>59,066,650</b>
Commission rate sensitivity-On balance sheet	(953,734)	4,874,979	7,860,421	2,271,825	(14,053,491)	-
Commission rate sensitivity-Off balance sheet	3,046,094	-	(2,952,329)	(93,765)	-	-
<b>Total commission rate sensitivity gap</b>	<b>2,092,360</b>	<b>4,874,979</b>	<b>4,908,092</b>	<b>2,178,060</b>	<b>(14,053,491)</b>	<b>-</b>
Cumulative commission rate sensitivity gap	2,092,360	6,967,339	11,875,431	14,053,491	-	-

The off-balance sheet gap position represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

#### (ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as of December 31, 2013 and 2012, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably plausible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). The reasonably plausible change is estimated based on the relevant foreign exchange rate movements during the last five years (2009 – 2013). A positive effect shows a potential net increase in the consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 30. Market risk - continued

Currency Exposures as of December 31, 2013	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	+0.07/-0.08	-119/+128	+7,761/-8,312
EUR	+12.74/-11.20	+37/-32	+22,857/-20,103
GBP	+7.89/-12.65	-4,878/+7,816	-
Currency Exposures as of December 31, 2012	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	+0.03/-0.03	-154/+154	+2,205/-2,205
EUR	+12.22/-12.22	+11/-11	+51,063/-51,063
GBP	+8.74/-8.74	+90/-90	-

#### (iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2013 SAR '000 Long/(short)	2012 SAR '000 Long/(short)
US Dollar	(159,877)	(512,266)
Euro	290	92
Pound sterling	(61,797)	1,025
Japanese yen	337	(336)
U.A.E Dirham	5,240	483
Others	(19,165)	4,827

#### (iv) Equity price risk

Equity risk refers to the risk of a decrease in fair values of equities and mutual funds in the Bank's investment portfolio as a result of reasonably plausible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Banks investments in equities and mutual funds from a reasonably plausible change in relevant indices, with other variables held constant, and the related effect on the Bank's equity. The reasonably plausible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2009 - 2013). A positive effect shows a potential increase in consolidated equity, whereas a negative effect shows a potential decrease in consolidated equity.

	as of December 31, 2013		as of December 31, 2012	
Market Indices	Change in equity price %	Effect in SAR'000	Change in equity price %	Effect in SAR'000
TADAWUL	+29.99%/-37.30%	+253,675/-315,442	+24.61/-24.61	+108,548/-108,548
NASDAQ	-	-	+10.55/-10.55	+2,620/-2,620
Unquoted	+5.00%/-5.00%	+506/-506	+5.00/-5.00	+556/-556



# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 31. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by The Asset Liability Management Committee. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to The Asset Liability Management Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2012: 7%) of total demand deposits and 4% (2012: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 70% of the nominal value of bonds held.

a) Expected contractual maturity profile of assets and liabilities.

The tables below summarize the contractual maturity profile of the Bank's assets and liabilities as of December 31, 2013 and 2012. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the tables are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows for both contractual and non-contractual positions.

	2013 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
<b>Assets</b>						
Cash and balances with SAMA	3,249,544	-	-	-	3,057,485	6,307,029
Due from banks and other financial institutions	3,064,204	2,509,325	-	-	-	5,573,529
Investments, net	2,966,178	2,356,491	5,985,999	5,521,384	866,443	17,696,495
Loans and advances, net	18,368,850	13,720,709	12,947,205	2,530,107	-	47,566,871
Investments in associates	-	-	-	-	1,070,648	1,070,648
Property and equipment, net	-	-	-	-	872,534	872,534
Other assets	409,592	998,715	-	-	-	1,408,307
<b>Total</b>	<b>28,058,368</b>	<b>19,585,240</b>	<b>18,933,204</b>	<b>8,051,491</b>	<b>5,867,110</b>	<b>80,495,413</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions	9,040,919	787,313	-	-	-	9,828,232
Customer deposits	27,858,949	14,454,640	208,770	-	14,521,488	57,043,847
Other liabilities	184,847	1,185,712	-	-	-	1,370,559
Term loans	-	-	2,000,000	-	-	2,000,000
Equity	-	-	-	-	10,252,775	10,252,775
<b>Total liabilities and equity</b>	<b>37,084,715</b>	<b>16,427,665</b>	<b>2,208,770</b>	<b>-</b>	<b>24,774,263</b>	<b>80,495,413</b>
Derivatives, commitments and contingencies	8,907,350	7,550,691	6,738,045	1,950,193	-	25,146,279

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 31. Liquidity risk – continued

	2012 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
<b>Assets</b>						
Cash and balances with SAMA	4,953,000	-	-	-	2,382,643	7,335,643
Due from banks and other financial institutions	2,798,395	1,033,379	-	-	-	3,831,774
Investments, net	99,201	522,604	6,602,339	2,962,974	724,843	10,911,961
Loans and advances, net	13,018,903	9,604,586	8,676,256	2,750,947	-	34,050,692
Investments in associates	-	-	-	-	965,902	965,902
Property and equipment, net	-	-	-	-	866,896	866,896
Other assets	446,153	657,629	-	-	-	1,103,782
<b>Total assets</b>	<b>21,315,652</b>	<b>11,818,198</b>	<b>15,278,595</b>	<b>5,713,921</b>	<b>4,940,284</b>	<b>59,066,650</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions	6,219,438	49,607	-	-	-	6,269,045
Customer deposits	23,652,227	5,995,896	493,770	-	10,271,678	40,413,571
Other liabilities	209,486	795,722	-	-	-	1,005,208
Term loans	-	-	2,000,000	-	-	2,000,000
Equity	-	-	-	-	9,378,826	9,378,826
<b>Total liabilities and equity</b>	<b>30,081,151</b>	<b>6,841,225</b>	<b>2,493,770</b>	<b>-</b>	<b>19,650,504</b>	<b>59,066,650</b>
Derivatives, commitments and contingencies	5,071,844	2,979,552	5,134,227	378,328	-	13,563,951

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The cumulative maturities of commitments and contingencies is disclosed in note 18c (i) of the consolidated financial statements.

#### b) Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities as of December 31, 2013 and 2012 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, the totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date that the Bank could be required to pay and the tables do not reflect the expected cash flows indicated by the Bank's deposit retention history.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 31. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	2013 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Non derivatives liabilities	36,899,868	15,241,953	2,208,770	-	14,521,488	68,872,079
Derivatives	5,438,843	2,908,084	3,466,137	1,640,130	-	13,453,194
<b>Total</b>	<b>42,338,711</b>	<b>18,150,037</b>	<b>5,674,907</b>	<b>1,640,130</b>	<b>14,521,488</b>	<b>82,325,273</b>

  

	2012 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Non derivatives liabilities	29,871,665	6,045,503	2,493,770	-	10,271,678	48,682,616
Derivatives	2,179,592	293,151	3,202,331	93,815	-	5,768,889
<b>Total</b>	<b>32,051,257</b>	<b>6,338,654</b>	<b>5,696,101</b>	<b>93,815</b>	<b>10,271,678</b>	<b>54,451,505</b>

### 32. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The Bank uses the hierarchy disclosed in note 2 (d) (ii) for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as at December 31, 2013 and 2012 by level of the fair value hierarchy.

	2013 (SAR '000)			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Derivative financial instruments	-	168,556	108,195	276,751
Financial investments available for sale	11,656,318	5,191,591	11,543	16,859,452
<b>Total</b>	<b>11,656,318</b>	<b>5,360,147</b>	<b>119,738</b>	<b>17,136,203</b>
Financial liabilities:				
Derivative financial instruments	-	215,020	-	215,020
<b>Total</b>	<b>-</b>	<b>215,020</b>	<b>-</b>	<b>215,020</b>

  

	2012 (SAR '000)			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Derivative financial instruments	-	79,695	14,099	93,794
Financial investments available for sale	8,201,782	1,779,360	11,129	9,992,271
<b>Total</b>	<b>8,201,782</b>	<b>1,859,055</b>	<b>25,228</b>	<b>10,086,065</b>
Financial liabilities:				
Derivative financial instruments	-	142,348	-	142,348
<b>Total</b>	<b>-</b>	<b>142,348</b>	<b>-</b>	<b>142,348</b>

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 32. Fair values of financial assets and liabilities - continued

The fair values of financial instruments that are not included in the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, held to maturity investments, commission bearing customers' deposits, term loans, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the 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.

The estimated fair values of held-to-maturity investments are based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in Note 6 (c).

The fair values of derivatives and other off-balance sheet financial instruments are based on quoted market prices when available or by using appropriate valuation models. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation models, is a gain of SAR 128.3 million (2012: SAR 29.9 million).

The value obtained from the relevant valuation model may differ with the transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

### 33. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

- a) The balances as of December 31, 2013 and 2012, resulting from such transactions included in the consolidated financial statements are as follows:

	<b>2013</b> <b>SAR'000</b>	2012 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	<b>1,182,715</b>	415,956
Due to banks and other financial institutions	<b>569</b>	538
Commitments and contingencies	<b>1,760,584</b>	1,861,564
Associates:		
Loans and advances, net	<b>222,000</b>	194,000
Customer deposits	<b>331,118</b>	381,265
Commitments and contingencies	<b>606,801</b>	596,651

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 33. Related party transactions - continued

	2013 SAR'000	2012 SAR'000
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Loans and advances, net	1,172,372	1,386,248
Due to banks and other financial institutions	93,750	668,777
Customer deposits	6,926,648	5,618,914
Term loan	1,000,000	1,000,000
Commitments and contingencies	2,766,585	2,661,620

Mutual funds and employee benefit plans:

Investments	36,495	239,203
Customer deposits	8,732	23,988

Other major Saudi shareholders represent shareholdings (excluding the foreign shareholders) of 5% or more of the Bank's issued share capital.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

- b) Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2013 SAR'000	2012 SAR'000
Special commission income	57,112	82,234
Special commission expense	76,327	45,085
Fees from banking services, net	52,218	41,167
Board of Directors and other Board Committee members remuneration	3,746	2,897

The total amount of compensation charged or paid to key management personnel during the year is included in Note 23.

### 34. Capital adequacy and capital structure disclosures

#### a) Capital adequacy

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank'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 by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank'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.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

### 34. Capital adequacy and capital structure disclosures - continued

The following table summarizes the Bank's Pillar I RWA, Tier I and Tier II capital, and Capital Adequacy Ratio percentages:

	2013 SAR'000	2012 SAR'000
Credit Risk RWA	67,282,100	47,661,656
Operational Risk RWA	3,146,249	3,081,431
Market Risk RWA	287,438	283,449
Total Pillar- I RWA	70,715,787	51,026,536
Tier I Capital	10,233,954	8,877,054
Tier II Capital	461,023	112,819
Total Tier I & II Capital	10,694,977	8,989,873
Capital Adequacy Ratio %		
Tier I Ratio	14.47%	17.40%
Tier I + Tier II Ratio	15.12%	17.62%

As of December 31, 2013, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III which were effective from January 1, 2013. The comparative amounts and ratios as of December 31, 2012, however, were calculated in accordance with Basel II and prior SAMA guidelines.

#### b) Capital structure disclosures

Certain additional disclosures related to the Bank's capital structure are required under Basel III. These disclosures will be made available to the public on the Banks website ([www.saib.com.sa](http://www.saib.com.sa)) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors of the Bank.

### 35. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling approximately SAR 4,342 million (2012: SAR 3,963 million). This includes funds managed under Shariah approved portfolios amounting to approximately SAR 1,069 million (2012: SAR 1,110 million).

### 36. Employee stock options

The Group has share-based payment plans outstanding at the end of the year. Significant features of the Plans are as follows:

Grant dates: January 1, 2010, 2011, 2012 and 2013  
Maturity dates: Between 2011 and 2017  
Vesting period: 4 years per plan  
Vesting conditions: participating employees to remain in service  
Method of settlement: Shares  
Cost to participating employees: SAR 4.09 to SAR 5.00 per share.

# THE SAUDI INVESTMENT BANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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### 36. Employee stock options - continued

The stock options outstanding as of December 31, 2013 and 2012 have a weighted average contractual life of between one and four years.

The stock options are granted only under a service condition with no market condition.

In 2013, the Bank vested 50% of the shares granted in January 2011, 25% of the shares granted in January 2010, and 25% of the shares granted in January 2009, equivalent to 927,326 shares, for a total estimated cost of SAR 13.4 million.

In 2012, the Bank vested 50% of the shares granted in January 2010, 25% of the shares granted in January 2009, and 25% of the shares granted in January 2008 equivalent to 590,997 shares, for a total estimated cost of SAR 8.4 million.

### 37. Issued IFRS but not yet effective

The Group has chosen not to early adopt the following standards, which are effective for the Bank's 2014 financial reporting year:

- IFRS 10 amendment that provides consolidation relief for investment funds applicable from January 1, 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 income statement 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 January 1, 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 process receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable from January 1, 2014 addresses the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal.

IFRS 9 Financial Instruments (2010): (revised version of IFRS 9) was originally applicable from January 1, 2015 but the effective date has now been delayed. IFRS 9 incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

The Group is currently assessing the implication of the above standards and amendments on the Group and the timing of the adoption of IFRS 9.

### 38. Comparative figures

Certain prior year figures have been reclassified to conform to the current year presentation.

### 39. Board of Director's approval

The consolidated financial statements were approved by the Board of Directors on 2<sup>nd</sup> Rabi II 1435H corresponding to February 2, 2014.

### 40. Basel III Pillar 3 disclosures (unaudited)

Under Basel III pillar 3, certain disclosures are required, and these disclosures will be made available on the Bank's website [www.saib.com.sa](http://www.saib.com.sa) as required by SAMA. Such disclosures are not subject to review nor audit by the external auditors.

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