



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2014

(Unaudited)

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

		March 31, 2014	Dec. 31, 2013	March 31, 2013
	Notes	(Unaudited)	(Audited)	(Unaudited)
ASSETS				
Cash and balances with SAMA		6,701,271	6,307,029	3,931,906
Due from banks and other financial institutions		2,566,113	5,573,529	3,914,967
Investments, net	5	18,323,113	17,696,495	15,328,151
Loans and advances, net	6	52,237,441	47,566,871	36,989,657
Investments in associates	7	705,227	1,070,648	955,937
Property and equipment, net		906,824	872,534	871,337
Other assets		1,421,557	1,408,307	1,137,423
Total assets		82,861,546	80,495,413	63,129,378
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		6,422,052	9,828,232	6,747,957
Customer deposits	8	62,142,816	57,043,847	44,039,353
Other liabilities		1,326,699	1,370,559	1,019,621
Term loans	9	2,000,000	2,000,000	2,000,000
Total liabilities		71,891,567	70,242,638	53,806,931
Equity				
Share capital	15	5,500,000	5,500,000	5,500,000
Statutory reserve		3,253,000	3,253,000	2,931,000
Other reserves		348,248	(33,664)	8,569
Retained earnings		1,422,782	1,085,313	912,252
Proposed dividends	16	477,500	477,500	-
Employee stock option shares		(31,551)	(29,374)	(29,374)
Total equity		10,969,979	10,252,775	9,322,447
Total liabilities and equity		82,861,546	80,495,413	63,129,378

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31

	<u>2014</u>	<u>2013</u>
Special commission income	515,566	460,521
Special commission expense	160,885	120,908
Net special commission income	354,681	339,613
Fee income from banking services, net	97,547	90,400
Exchange income, net	21,555	15,372
Dividend income	13,734	8,275
Gains on non-trading investments, net	266,532	49,511
Other income	3,245	2,210
Total operating income	757,294	505,381
Salaries and employee-related expenses	122,511	97,934
Rent and premises-related expenses	23,185	25,835
Depreciation and amortization	17,040	17,515
Other general and administrative expenses	68,549	42,275
Impairment charge for credit losses, net	141,000	30,000
Impairment charge for non-trading investments, net	10,000	15,000
Total operating expenses	382,285	228,559
Income from operating activities	375,009	276,822
Share in earnings (losses) of associates	(37,540)	37,451
Net income for the period	337,469	314,273
Basic and diluted earnings per share (expressed in SAR per share) (Note 15)	0.61	0.57

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31

	<u>2014</u>	<u>2013</u>
Net income for the period	<u>337,469</u>	<u>314,273</u>
Other comprehensive income - items that may subsequently be reclassified to the consolidated income statement:		
Available for sale investments:		
- Net change in fair value	424,006	97,553
- Fair value gains transferred to interim condensed consolidated income statement on disposal	(42,581)	(49,511)
Share in other comprehensive income (losses) of associates	<u>487</u>	<u>(481)</u>
Total other comprehensive income for the period	<u>381,912</u>	<u>47,561</u>
Total comprehensive income for the period	<u><u>719,381</u></u>	<u><u>361,834</u></u>

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31

	2014						
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total equity
Balance at the beginning of the period	5,500,000	3,253,000	(33,664)	1,085,313	477,500	(29,374)	10,252,775
Total comprehensive income for the period	-	-	381,912	337,469	-	-	719,381
Employee stock option shares allocated	-	-	-	-	-	(29,614)	(29,614)
Employee stock option shares vested	-	-	-	-	-	27,437	27,437
Balance at the end of the period	<u>5,500,000</u>	<u>3,253,000</u>	<u>348,248</u>	<u>1,422,782</u>	<u>477,500</u>	<u>(31,551)</u>	<u>10,969,979</u>
	2013						
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total equity
Balance at the beginning of the period	5,500,000	2,931,000	(38,992)	597,979	416,600	(27,761)	9,378,826
Total comprehensive income for the period	-	-	47,561	314,273	-	-	361,834
Dividends paid (note 16)	-	-	-	-	(416,600)	-	(416,600)
Employee stock option shares allocated	-	-	-	-	-	(35,368)	(35,368)
Employee stock option shares vested	-	-	-	-	-	33,755	33,755
Balance at the end of the period	<u>5,500,000</u>	<u>2,931,000</u>	<u>8,569</u>	<u>912,252</u>	<u>-</u>	<u>(29,374)</u>	<u>9,322,447</u>

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Net income for the period	337,469	314,273
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Accretion of discounts on non-trading investments, net	(9,937)	(7,068)
Gain on non-trading investments, net	(266,532)	(49,511)
Gain on sale of property, net	87	(210)
Depreciation and amortization	17,040	17,515
Impairment charge for credit losses	141,000	30,000
Impairment charge for non-trading investments	10,000	15,000
Share in losses (earnings) of associates	37,540	(37,451)
	266,667	282,548
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA	(444,489)	(381,884)
Due from banks and other financial institutions maturing after ninety days from the acquisition date	850,000	1,536,485
Loans and advances	(4,811,570)	(2,968,965)
Other assets	(42,864)	(67,175)
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	(3,406,180)	478,912
Customer deposits	5,098,969	3,625,782
Other liabilities	(16,423)	48,168
Net cash (used in) from operating activities	(2,505,890)	2,553,871
INVESTING ACTIVITIES		
Proceeds from sale of and matured non-trading investments	3,375,755	384,153
Purchase of non-trading investments	(3,084,743)	(4,710,722)
Dividends received from associates	58,632	46,935
Purchase of property and equipment	(51,541)	(23,827)
Proceeds from sale of property and equipment	124	247
Net cash from (used in) investing activities	298,227	(4,303,214)
FINANCING ACTIVITIES		
Dividends paid	-	(416,600)
Net cash used in financing activities	-	(416,600)
Decrease in cash and cash equivalents	(2,207,663)	(2,165,943)

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - continued (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents		
Decrease in cash and cash equivalents	(2,207,663)	(2,165,943)
Cash and cash equivalents at the beginning of the period	11,102,584	8,500,379
Cash and cash equivalents at the end of the period (note 12)	8,894,921	6,334,436
Supplemental special commission information		
Special commission received during the period	512,168	451,717
Special commission paid during the period	176,781	210,289
Supplemental non-cash information		
Total other comprehensive income for the period	381,912	47,561
Employee stock option shares, net of allocation and vesting	(2,177)	(1,613)
Transfer of investment in associate to available for sale investments	269,736	-

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Amounts in SAR'000

For the three month periods ended March 31, 2014 and 2013

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 (December 31, 2013: 48 branches; and March 31, 2013: 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, which are approved and supervised by an independent Shariah Board established by the Bank.

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard (IAS) 34 – "Interim Financial Reporting". The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2013.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand.

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2013.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on April 30, 2014.

3. Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and the financial statements of 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; and

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Amounts in SAR'000

For the three month periods ended March 31, 2014 and 2013

3. Basis of consolidation (continued)

- b) "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 Awwal 1430H (corresponding to 25 May 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 SAIB BNP Paribas Asset Management Company Limited (AMCO), a former subsidiary of the Bank, whereby Alistithmar Capital acquired the business and net assets of AMCO. AMCO is now completing the remaining regulatory actions to formally close the company.

The financial statements of the subsidiaries are prepared for the same reporting period 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 adopted by the Bank.

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

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

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements.

4. Significant accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of the following amendments to existing standards, which have had no significant impact on these interim condensed consolidated financial statements of the Group:

- Amendments to IFRS 10, IFRS 12, and IAS 27 that provide 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 for 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 processes receivables and payables in a single settlement process or cycle.

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Amounts in SAR'000

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4. Significant accounting policies (continued)

- IAS 36 amendment applicable retrospectively from January 1, 2014, addresses the disclosure of information about the recoverable amount of impaired assets. Under the amendments, recoverable amounts of every cash generating unit to which goodwill or indefinite – lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognized or reversed.
- IAS 39 amendment applicable from January 1, 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

IFRS 9 Financial Instruments applicable from January 1, 2018 provides guidance on the classification and measurement of financial assets and financial liabilities, provides requirements for derecognition of financial instruments, and incorporates revised requirements for hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The Group is currently assessing the implications of IFRS 9 on the Group and the timing of its adoption.

5. Investments, net

Investments are classified as follows:

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Available for sale, net	17,488,502	16,859,452	14,410,476
Held to maturity, net	834,611	837,043	917,675
Investments, net	<u>18,323,113</u>	<u>17,696,495</u>	<u>15,328,151</u>

The fair values of the held to maturity investments are approximately SAR 846.1 million as of March 31, 2014 (December 31, 2013: SAR 851.1 million and March 31, 2013: SAR 921.3 million).

6. Loans and advances, net

Loans and advances, net are comprised of the following:

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Performing loans and advances:			
Consumer loans	10,482,728	9,368,077	6,697,125
Commercial loans and overdrafts	42,092,059	38,429,225	30,609,367
Others	86,390	78,629	60,672
Total performing loans and advances	52,661,177	47,875,931	37,367,164
Non performing loans and advances	405,229	395,015	461,826
Total loans and advances	53,066,406	48,270,946	37,828,990
Allowance for credit losses	(828,965)	(704,075)	(839,333)
Loans and advances, net	<u>52,237,441</u>	<u>47,566,871</u>	<u>36,989,657</u>

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Amounts in SAR'000

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7. Investments in associates

Investments in associates as of March 31, 2014 include the Bank's ownership interest in Amex Saudi Arabia Limited (50%), Saudi Orix Leasing Company (38%), and Amlak International for Finance and Real Estate Development Co. (32%).

The movement of investments in associates for the three month periods ended March 31, 2014 and 2013, and for the year ended December 31, 2013, is summarized as follows:

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Balance at the beginning of the period	1,070,648	965,902	965,902
Transfer to available for sale investments	(269,736)	-	-
Share in earnings (losses)	(37,540)	160,825	37,451
Dividends received	(58,632)	(56,624)	(46,935)
Share in other comprehensive income (losses)	487	545	(481)
Balance at the end of the period	<u>705,227</u>	<u>1,070,648</u>	<u>955,937</u>

During the first quarter of 2014, the Bank transferred its investment in the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co. (MedGulf) from investments in associates to available for sale investments, because this investment no longer qualifies to be accounted for as an investment in an associate. This investment was recorded in available for sale investments at its estimated fair value at the time of transfer, with a corresponding gain equal to the difference between the estimated fair value and the carrying amount of the recorded investment in MedGulf. The resulting gain totaling SAR 223.9 million is included in gains on non-trading investments, net.

8. Customer deposits

Customer deposits are comprised of the following:

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Demand	14,297,237	13,332,031	10,447,051
Savings	1,828,093	641,354	584,220
Time	45,075,675	42,111,729	32,450,193
Other	941,811	958,733	557,889
Customer deposits	<u>62,142,816</u>	<u>57,043,847</u>	<u>44,039,353</u>

9. Term loans

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 also 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.

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Amounts in SAR'000

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10. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. The total notional amounts are also not indicative of the Bank's exposure to credit risk nor market risk.

	Mar. 31, 2014 (Unaudited)			Dec. 31, 2013 (Audited)			Mar. 31, 2013 (Unaudited)		
	Fair value		Notional amount	Fair value		Notional amount	Fair value		Notional amount
Positive	Negative	Positive		Negative	Positive		Negative		
Held for trading:									
Forward foreign exchange contracts	8,945	4,009	12,162,502	9,736	8,645	6,465,351	5,209	3,161	847,244
Foreign exchange options	64,884	63,236	2,393,410	82,970	82,599	1,921,591	5,486	5,343	354,187
Commission rate swaps	38,821	39,557	2,670,060	39,642	38,959	2,520,000	23,016	43,239	730,000
Held as fair value hedges:									
Commission rate swaps	32,761	70,385	2,325,922	36,208	84,817	2,546,252	40,293	88,768	2,545,894
Total	145,411	177,187	19,551,894	168,556	215,020	13,453,194	74,004	140,511	4,477,325

In addition to the above, 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 is exercised, based on pre-determined formulas included in the agreement. As of March 31, 2014 the estimated fair value of this option is approximately SAR 136.9 million (December 31, 2013: SAR 108.2 million and March 31, 2013: 37.6 million).

11. Commitments and contingencies

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

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Letters of credit	2,577,595	2,707,442	1,649,382
Letters of guarantee	7,722,356	7,362,302	5,859,715
Acceptances	932,323	1,104,012	401,349
Irrevocable commitments to extend credit	348,628	519,329	580,067
Credit-related commitments and contingencies	11,580,902	11,693,085	8,490,513

The Bank has received assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 16.7 million relating to its Zakat, Income tax, and withholding tax filings from 2003 to 2008. The Bank has filed an appeal for these assessments.

The Bank has received assessments for additional Zakat totalling approximately SAR 185 million relating to its 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.

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12. Cash and cash equivalents

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

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	3,842,808	3,893,055	1,782,984
Due from banks and other financial institutions maturing within ninety days from the acquisition date	5,052,113	<u>7,209,529</u>	<u>4,551,452</u>
Cash and cash equivalents	<u>8,894,921</u>	<u>11,102,584</u>	<u>6,334,436</u>

13. 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 operating 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 is measured in a manner consistent with that in the interim condensed 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.

Treasury

Money market, investments and treasury services.

Asset management and brokerage

Dealing, managing, advising and custody of securities services.

Commission is charged or credited to operating segments based on funds transfer price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits. All other segment income is from external customers.

The segment information provided to the Bank's Board of Directors which includes the reportable segments for the Bank's total assets and liabilities as of March 31, 2014 and 2013, and the segmental income, total operating expenses, and net income for the three month periods then ended, are as follows:

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Amounts in SAR'000

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13. Business segments (continued)

	March 31, 2014 (Unaudited)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Total assets	<u>20,542,574</u>	<u>34,482,927</u>	<u>26,931,036</u>	<u>905,009</u>	<u>82,861,546</u>
Total liabilities	<u>16,879,434</u>	<u>12,495,809</u>	<u>42,435,524</u>	<u>80,800</u>	<u>71,891,567</u>
Net FTP contribution	142,416	138,492	67,509	6,264	354,681
Fee income from banking services, net	28,141	45,347	2,042	22,017	97,547
Other operating income	<u>16,330</u>	<u>12,286</u>	<u>273,316</u>	<u>3,134</u>	<u>305,066</u>
Total operating income	<u>186,887</u>	<u>196,125</u>	<u>342,867</u>	<u>31,415</u>	<u>757,294</u>
Operating expenses before impairment charges	111,810	43,793	59,178	16,504	231,285
Impairment charges, net	<u>33,289</u>	<u>107,711</u>	<u>10,000</u>	-	<u>151,000</u>
Total operating expenses	<u>145,099</u>	<u>151,504</u>	<u>69,178</u>	<u>16,504</u>	<u>382,285</u>
Income from operating activities	41,788	44,621	273,689	14,911	375,009
Share in losses of associates	-	-	(37,540)	-	(37,540)
Net income for the period	<u>41,788</u>	<u>44,621</u>	<u>236,149</u>	<u>14,911</u>	<u>337,469</u>

	March 31, 2013 (Unaudited)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total

Total assets	<u>15,373,192</u>	<u>24,389,807</u>	<u>22,708,808</u>	<u>657,571</u>	<u>63,129,378</u>
Total liabilities	<u>14,153,401</u>	<u>5,058,272</u>	<u>34,571,697</u>	<u>23,561</u>	<u>53,806,931</u>
Net FTP contribution	140,322	100,501	94,848	3,942	339,613
Fee income from banking services, net	28,343	46,868	202	14,987	90,400
Other operating income	<u>5,406</u>	<u>7,378</u>	<u>48,800</u>	<u>13,784</u>	<u>75,368</u>
Total operating income	<u>174,071</u>	<u>154,747</u>	<u>143,850</u>	<u>32,713</u>	<u>505,381</u>
Operating expenses before impairment charges	93,694	39,616	32,713	17,536	183,559
Impairment charges, net	<u>7,641</u>	<u>22,359</u>	<u>15,000</u>	-	<u>45,000</u>
Total operating expenses	<u>101,335</u>	<u>61,975</u>	<u>47,713</u>	<u>17,536</u>	<u>228,559</u>
Income from operating activities	72,736	92,772	96,137	15,177	276,822
Share in earnings of associates	-	-	37,451	-	37,451
Net income for the period	<u>72,736</u>	<u>92,772</u>	<u>133,588</u>	<u>15,177</u>	<u>314,273</u>

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14. Fair values of financial assets and liabilities

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

Level 1: quoted prices in active markets for the same instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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

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

The following table summarizes the financial assets and liabilities recorded at fair value as of March 31, 2014, December 31, 2013, and March 31, 2013 by level of the fair value hierarchy.

March 31, 2014 (SAR'000) (unaudited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Derivative financial instruments	-	145,411	136,935	282,346
Financial investments available for sale	<u>13,711,194</u>	<u>3,761,901</u>	<u>15,407</u>	<u>17,488,502</u>
Total	<u>13,711,194</u>	<u>3,907,312</u>	<u>152,342</u>	<u>17,770,848</u>
Financial liabilities:				
Derivative financial instruments	-	177,187	-	177,187
Total	-	<u>177,187</u>	-	<u>177,187</u>
December 31, 2013 (SAR '000) (audited)				
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

Total	<u>11,656,318</u>	<u>5,360,147</u>	<u>119,738</u>	<u>17,136,203</u>
Financial liabilities:				
Derivative financial instruments	<u>-</u>	<u>215,020</u>	<u>-</u>	<u>215,020</u>
Total	<u>-</u>	<u>215,020</u>	<u>-</u>	<u>215,020</u>
March 31, 2013 (SAR '000) (unaudited)				
Financial assets:				
Derivative financial instruments	-	74,004	37,623	111,627
Financial investments available for sale	<u>9,078,258</u>	<u>5,321,090</u>	<u>11,128</u>	<u>14,410,476</u>
Total	<u>9,078,258</u>	<u>5,395,094</u>	<u>48,751</u>	<u>14,522,103</u>
Financial liabilities:				
Derivative financial instruments	<u>-</u>	<u>140,511</u>	<u>-</u>	<u>140,511</u>
Total	<u>-</u>	<u>140,511</u>	<u>-</u>	<u>140,511</u>

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14. Fair values of financial assets and liabilities (continued)

The fair values of on balance sheet financial instruments are not significantly different from the carrying values included in the interim condensed 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 interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks. 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 (5).

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 interim condensed consolidated income statement for the three month period ended March 31, 2014, which was estimated using valuation models, is SAR 34.4 million (March 31, 2013: 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 interim condensed consolidated income statement without reversal of deferred day one profits and losses.

15. Share capital and earnings per share

Basic and diluted earnings per share for the three month periods ended March 31, 2014 and 2013 are calculated by dividing the net income for the period by 550 million shares.

16. Dividends

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. As of March 31, 2014, the proposed cash dividend and bonus share issue were pending shareholder approval.

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.

17. 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%.

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17. Capital adequacy and capital structure disclosures (continued)

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 following table summarises the Bank's Pillar I RWA, Tier I and Tier II Capital, and Capital Adequacy ratio percentages.

	Mar. 31, 2014 (Unaudited)	Dec. 31, 2013 (Audited)	Mar. 31, 2013 (Unaudited)
Credit Risk RWA	69,761,421	67,282,100	54,133,059
Operational Risk RWA	3,146,249	3,146,249	3,081,431
Market Risk RWA	677,640	287,438	214,773
Total Pillar- I RWA	73,585,310	70,715,787	57,429,263
Tier I Capital	10,898,568	10,233,954	9,303,626
Tier II Capital	602,744	461,023	639,562
Total Tier I & II Capital	11,501,312	10,694,977	9,943,188
Capital Adequacy Ratio %			
Tier I Ratio	14.81%	14.47%	16.20%
Tier I + Tier II Ratio	15.63%	15.12%	17.31%

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 Bank's website (www.saib.com.sa) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors of the Bank.

18. Comparative figures

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