



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2013

(Unaudited)

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	June 30, 2013	Dec. 31, 2012	June 30, 2012
Notes	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
Cash and balances with SAMA	4,783,026	7,335,643	7,385,805
Due from banks and other financial institutions	2,172,095	3,831,774	4,183,461
Investments, net	5 16,099,811	10,911,961	9,166,886
Loans and advances, net	6 40,414,337	34,050,692	29,794,562
Investments in associates	7 980,725	965,902	901,184
Property and equipment, net	867,075	866,896	885,590
Other assets	1,342,159	1,103,782	1,146,551
Total assets	<u>66,659,228</u>	<u>59,066,650</u>	<u>53,464,039</u>
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	5,489,572	6,269,045	4,778,832
Customer deposits	8 48,560,005	40,413,571	38,080,121
Other liabilities	1,143,054	1,005,208	864,245
Term loans	9 2,000,000	2,000,000	1,000,000
Total liabilities	<u>57,192,631</u>	<u>49,687,824</u>	<u>44,723,198</u>
Equity			
Share capital	15 5,500,000	5,500,000	5,500,000
Statutory reserve	2,931,000	2,931,000	2,703,000
Other reserves	(167,679)	(38,992)	(199,563)
Retained earnings	1,232,650	597,979	765,165
Proposed dividends	16 -	416,600	-
Employee stock option shares	(29,374)	(27,761)	(27,761)
Total equity	<u>9,466,597</u>	<u>9,378,826</u>	<u>8,740,841</u>
Total liabilities and equity	<u>66,659,228</u>	<u>59,066,650</u>	<u>53,464,039</u>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

Amounts in SAR'000

	Three month period ended		Six month period ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Special commission income	449,440	386,879	909,961	755,249
Special commission expense	106,034	80,414	226,942	158,120
Net special commission income	343,406	306,465	683,019	597,129
Fee income from banking services, net	99,176	80,627	189,576	166,118
Exchange income, net	26,124	9,388	41,496	16,766
Dividend income	669	-	8,944	8,387
Gain on non-trading investments, net	48,964	468	98,475	1,607
Gain on sale of property and other income	340	22,452	2,550	88,009
Total operating income	518,679	419,400	1,024,060	878,016
Salaries and employee-related expenses	107,576	86,471	205,510	169,677
Rent and premises-related expenses	23,390	19,983	49,225	40,035
Depreciation and amortization	17,901	17,432	35,416	34,897
Other general and administrative expenses	44,793	29,155	87,068	57,641
Impairment charge for credit losses, net	30,000	70,000	60,000	185,000
Impairment charge for non-trading investments, net	9,000	11,000	24,000	37,000
Total operating expenses	232,660	234,041	461,219	524,250
Income from operating activities	286,019	185,359	562,841	353,766
Share in earnings of associates	34,379	37,029	71,830	80,857
Net income for the period	320,398	222,388	634,671	434,623
Basic and diluted earnings per share (expressed in SAR per share) (Note 15)	0.58	0.40	1.15	0.79

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited) Amounts in SAR'000

	<u>Three month period ended</u>		<u>Six month period ended</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net income for the period	<u>320,398</u>	<u>222,388</u>	<u>634,671</u>	<u>434,623</u>
Other comprehensive income:				
Available for sale investments:				
- Net change in fair value	(127,381)	(129,881)	(29,828)	74,584
- Fair value gains transferred to interim condensed consolidated income statement on disposal	(48,964)	(468)	(98,475)	(1,607)
Share in other comprehensive income / (loss) of associates	<u>97</u>	<u>53</u>	<u>(384)</u>	<u>227</u>
Total other comprehensive (loss) / income for the period	<u>(176,248)</u>	<u>(130,296)</u>	<u>(128,687)</u>	<u>73,204</u>
Total comprehensive income for the period	<u><u>144,150</u></u>	<u><u>92,092</u></u>	<u><u>505,984</u></u>	<u><u>507,827</u></u>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Amounts in SAR'000

For the six month periods ended June 30

	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	-	-	(128,687)	634,671	-	-	505,984
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>(167,679)</u>	<u>1,232,650</u>	<u>-</u>	<u>(29,374)</u>	<u>9,466,597</u>
	2012						
	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	2,703,000	(272,767)	330,542	324,500	(27,979)	8,557,296
Total comprehensive income for the period	-	-	73,204	434,623	-	-	507,827
Dividends paid (note 16)	-	-	-	-	(324,500)	-	(324,500)
Employee stock option shares allocated	-	-	-	-	-	(21,294)	(21,294)
Employee stock option shares vested	-	-	-	-	-	21,512	21,512
Balance at the end of the period	<u>5,500,000</u>	<u>2,703,000</u>	<u>(199,563)</u>	<u>765,165</u>	<u>-</u>	<u>(27,761)</u>	<u>8,740,841</u>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

Amounts in SAR'000

For the six month periods ended June 30

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Net income for the period	634,671	434,623
Adjustments to reconcile net income to net cash from / (used in) operating activities:		
Accretion of discounts on non-trading investments, net	(16,894)	(7,627)
Gain on non-trading investments, net	(98,475)	(1,607)
Gain on sale of property	(548)	(86,361)
Depreciation and amortization	35,416	34,897
Impairment charge for credit losses, net	60,000	185,000
Impairment charge for non-trading investments, net	24,000	37,000
Share in earnings of associates	(71,830)	(80,857)
	<u>566,340</u>	<u>515,068</u>
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	(425,810)	(195,109)
Due from banks and other financial institutions maturing after ninety days from the acquisition date	1,888,500	525,362
Loans and advances	(6,423,645)	(2,865,469)
Other assets	(271,911)	40,840
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	(779,473)	554,660
Customer deposits	8,146,434	1,309,629
Other liabilities	171,601	(8,301)
	<u>2,872,036</u>	<u>(123,320)</u>
Net cash from / (used in) operating activities	<u>2,872,036</u>	<u>(123,320)</u>
INVESTING ACTIVITIES		
Proceeds from sale of and matured non-trading investments	715,680	2,196,429
Purchase of non-trading investments	(5,940,465)	(2,424,544)
Dividends received from associates	56,623	74,572
Purchase of property and equipment	(37,474)	(13,234)
Proceeds from sale of property and equipment	594	124,128
	<u>(5,205,042)</u>	<u>(42,649)</u>
Net cash used in investing activities	<u>(5,205,042)</u>	<u>(42,649)</u>
FINANCING ACTIVITIES		
Repayment of term loan	-	(500,000)
Dividends paid	(416,600)	(324,500)
	<u>(416,600)</u>	<u>(824,500)</u>
Net cash used in financing activities	<u>(416,600)</u>	<u>(824,500)</u>
Decrease in cash and cash equivalents	<u>(2,749,606)</u>	<u>(990,469)</u>

Continued

The accompanying notes 1 to 19 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) - continued

Amounts in SAR'000

For the six month periods ended June 30

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Cash and cash equivalents at the beginning of the period	8,500,379	10,903,211
Decrease in cash and cash equivalents	(2,749,606)	(990,469)
Cash and cash equivalents at the end of the period (note 12)	<u>5,750,773</u>	<u>9,912,742</u>
Supplemental special commission information		
Special commission received during the period	<u>892,641</u>	<u>795,835</u>
Special commission paid during the period	<u>309,885</u>	<u>182,400</u>
Supplemental non-cash information		
Total other comprehensive (loss) / income for the period	<u>(128,687)</u>	<u>73,204</u>
Employee stock option shares, net of allocation and vesting	<u>(1,613)</u>	<u>218</u>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the six month periods ended June 30, 2013 and 2012

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 Rabi' Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (December 31, 2012: 48 branches; and June 30, 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, 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, 2012.

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

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 consolidated financial statements as of and for the year ended December 31, 2012.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on July 17, 2013.

3. Basis of consolidation

These interim condensed 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the six month periods ended June 30, 2013 and 2012

3. Basis of consolidation (continued)

- 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% owned by both Saudi and non-Saudi shareholders; (see next paragraph 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 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 AMCO whereby Alistithmar Capital acquired the business and net assets of AMCO. AMCO is therefore now in the process of liquidation.

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 all entities that are controlled by the Bank. The Bank controls an entity when the Bank has power over an entity, is exposed to, or has rights to variable returns from its involvement with the entity, and has the ability to affect these returns through its power over that entity.

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 the 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, 2012, except for the adoption of the following new standards and amendments to existing standards, which have had no significant impact on these interim condensed consolidated financial statements of the Group.

- | | | |
|----------------------------------------------------------------------------------------------|--------------|--------------------------------------------------------------|
| • IAS 1 | Amendments | - Presentation of items of other comprehensive income |
| • IFRS 10 | | - Consolidated financial statements |
| • IFRS 11 | | - Joint arrangements |
| • IFRS 12 | | - Disclosure of interests in other entities |
| • IFRS 13 | | - Fair value measurement |
| • IAS 19 | Revised 2011 | - Employee benefits |
| • IAS 27 | Revised 2011 | - Separate financial statements |
| • IAS 28 | Revised 2011 | - Associates and joint ventures |
| • IFRS 7 | Revised 2011 | - Disclosures on offsetting financial assets and liabilities |
| • Amendments to the basis for conclusions on IAS 1,16, 32, and 34 (annual improvements 2011) | | |

In addition to the above, the Group has chosen not to early adopt IFRS 9 (2010) – Financial instruments, and the amendment to IAS 32 - Financial instruments: Presentation on offsetting financial assets and financial liabilities, which will not be effective until January 1, 2015 and January 1, 2014, respectively.

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For the six month periods ended June 30, 2013 and 2012

4. Significant accounting policies (continued)

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

5. Investments, net

Investments are classified as follows:

	June 30, 2013 (Unaudited)	Dec. 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Available for sale, net	15,208,745	9,992,271	8,220,881
Held to maturity, net	891,066	919,690	946,005
Investments, net	<u>16,099,811</u>	<u>10,911,961</u>	<u>9,166,886</u>

The fair values of the held to maturity investments are approximately SAR 919.1 million as of June 30, 2013 (December 31, 2012 SAR 919.9 million).

6. Loans and advances, net

Loans and advances, net are comprised of the following:

	June 30, 2013 (Unaudited)	Dec. 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Performing loans and advances:			
Consumer loans	7,298,089	6,178,170	6,106,597
Commercial loans and overdrafts	33,454,535	28,182,231	24,253,875
Others	69,593	56,433	44,278
Total performing loans and advances	40,822,217	34,416,834	30,404,750
Non performing loans and advances	354,001	450,346	1,799,015
Total loans and advances	41,176,218	34,867,180	32,203,765
Allowance for credit losses	(761,881)	(816,488)	(2,409,203)
Loans and advances, net	<u>40,414,337</u>	<u>34,050,692</u>	<u>29,794,562</u>

7. Investments in associates

Investments in associates include the Bank's ownership interest in Amex Saudi Arabia Limited (50%), Saudi Orix Leasing Company (38%), Mediterranean Gulf Insurance and Reinsurance Co. – KSA (19%), and Amlak International for Finance and Real Estate Development Co. (32%).

The movement of investments in associates for the six month periods ended June 30, 2013 and 2012, and for the year ended December 31, 2012, is summarized as follows:

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Amounts in SAR'000

For the six month periods ended June 30, 2013 and 2012

7. Investments in associates (continued)

	June 30, 2013 <u>(Unaudited)</u>	Dec. 31, 2012 <u>(Audited)</u>	June 30, 2012 <u>(Unaudited)</u>
Balance at the beginning of the period	965,902	894,672	894,672
Share in earnings	71,830	146,517	80,857
Dividends received	(56,623)	(74,571)	(74,572)
Share in other comprehensive (loss) / income	(384)	(716)	227
Balance at the end of the period	980,725	965,902	901,184

The shares of Medgulf are traded on the Saudi Stock Exchange. As of June 30, 2013, the market value of the Bank's 19% investment in Medgulf is approximately SAR 390.5 million (December 31, 2012: 428.6 million).

8. Customer deposits

Customer deposits are comprised of the following:

	June 30, 2013 <u>(Unaudited)</u>	Dec. 31, 2012 <u>(Audited)</u>	June 30, 2012 <u>(Unaudited)</u>
Demand	11,037,078	9,517,589	8,768,376
Savings	561,842	558,128	851,287
Time	36,063,010	29,868,401	27,582,168
Other	898,075	469,453	878,290
Customer deposits	48,560,005	40,413,571	38,080,121

9. 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.

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. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

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Amounts in SAR'000

For the six month periods ended June 30, 2013 and 2012

10. Derivatives (continued)

	June 30, 2013 (Unaudited)			Dec. 31, 2012 (Audited)			June 30, 2012 (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	7,673	5,212	1,226,740	7,617	1,250	1,979,794	3,032	2,175	2,086,322
Foreign exchange options	14,440	14,093	604,825	1,822	1,554	141,192	518	485	37,948
Structured options	720	720	20,001	720	720	20,001	-	-	-
Commission rate swaps	36,635	60,233	2,320,070	28,138	42,668	730,000	20,479	17,643	230,000
Held as fair value hedges:									
Commission rate swaps	53,861	81,966	2,545,951	41,398	96,156	2,546,093	87,539	128,928	2,545,922
Total	113,329	162,224	6,717,587	79,695	142,348	5,417,080	111,568	149,231	4,900,192

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 June 30, 2013 the estimated fair value of this option is approximately SAR 61.2 million (December 31, 2012: SAR 14.1 million and June 30, 2012: Nil).

11. Commitments and contingencies

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

	June 30, 2013 (Unaudited)	Dec. 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Letters of credit	2,428,835	1,585,064	1,586,080
Letters of guarantee	6,324,560	5,529,561	4,896,789
Acceptances	448,962	397,755	495,356
Irrevocable commitments to extend credit	486,669	282,682	267,688
Credit-related commitments and contingencies	9,689,026	7,795,062	7,245,913

The Bank has received assessments for additional Zakat, income tax, and withholding tax totalling 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 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.

A subsidiary of the Bank has also received assessments for additional zakat, income tax, and withholding tax relating to its 2008, 2009 and 2010 Zakat, income tax, and withholding tax filings, totalling approximately SAR 4.4 million. The subsidiary has filed an appeal for these assessments.

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Amounts in SAR'000

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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:

	June 30, 2013 (Unaudited)	Dec. 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	2,590,178	5,568,605	469,281
Due from banks and other financial institutions maturing within ninety days from the acquisition date	3,160,595	<u>2,931,774</u>	<u>9,443,461</u>
Cash and cash equivalents	<u>5,750,773</u>	<u>8,500,379</u>	<u>9,912,742</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 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 pricing rates. All of the segment revenue 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 June 30, 2013 and 2012, and the segmental income, total operating expenses, and net income for the six month periods then ended, are as follows:

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13. Business segments (continued)

	June 30, 2013 (Unaudited)				Total
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	
Total assets	17,078,184	26,622,245	22,355,493	603,306	66,659,228
Total liabilities	18,535,038	4,859,936	33,778,502	19,155	57,192,631
Net special commission income	260,975	208,744	204,488	8,812	683,019
Fee income from banking services, net	57,428	97,350	1,998	32,800	189,576
Other operating income	9,769	19,916	107,235	14,545	151,465
Total operating income	328,172	326,010	313,721	56,157	1,024,060
Operating expenses before impairment charges	172,494	96,297	74,972	33,456	377,219
Impairment charges, net	16,932	43,068	24,000	-	84,000
Total operating expenses	189,426	139,365	98,972	33,456	461,219
Income from operating activities	138,746	186,645	214,749	22,701	562,841
Share in earnings of associates	-	-	71,830	-	71,830
Net income for the period	138,746	186,645	286,579	22,701	634,671

	June 30, 2012 (Unaudited)				Total
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	
Total assets	13,915,358	18,613,596	20,235,147	699,938	53,464,039
Total liabilities	11,580,544	4,685,032	28,431,111	26,511	44,723,198
Net special commission income	259,443	193,764	136,992	6,930	597,129
Fee income from banking services, net	69,086	52,276	-	44,756	166,118
Other operating income	5,434	95,147	14,188	-	114,769
Total operating income	333,963	341,187	151,180	51,686	878,016
Operating expenses before impairment charges	171,993	56,500	32,873	40,884	302,250
Impairment charges, net	25,423	159,577	37,000	-	222,000
Total operating expenses	197,416	216,077	69,873	40,884	524,250
Income from operating activities	136,547	125,110	81,307	10,802	353,766
Share in earnings of associates	-	-	80,857	-	80,857
Net income for the period	136,547	125,110	162,164	10,802	434,623

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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 (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 June 30, 2013 and December 31, 2012 by level of the fair value hierarchy.

June 30, 2013 (SAR '000)	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	113,329	61,148	174,477
Financial investments available for sale	9,678,826	5,518,790	11,129	15,208,745
Total	9,678,826	5,632,119	72,277	15,383,222
Financial liabilities:				
Derivative financial instruments	-	162,224	-	162,224
Total	-	162,224	-	162,224
December 31, 2012 (SAR '000)	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	79,695	14,099	93,794
Financial investments available for sale	8,108,057	1,873,085	11,129	9,992,271
Total	8,108,057	1,952,780	25,228	10,086,065
Financial liabilities:				
Derivative financial instruments	-	142,348	-	142,348
Total	-	142,348	-	142,348

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).

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

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 six month period ended June 30, 2013, which was estimated using valuation models, is SAR 84.8 million (for year ended December 31, 2012: SAR 43.9 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 and six month periods ended June 30, 2013 and 2012 are calculated by dividing the net income for the period by 550 million shares.

16. Dividends

In 2012, The Board of Directors proposed a 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 Banks 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 there after.

In 2011, the Board of Directors proposed a gross 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 Banks shareholders there after.

17. Capital adequacy

The Bank'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.

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17. Capital adequacy (continued)

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

	Jun. 30, 2013 (Unaudited)	Dec. 31, 2012 (Audited)	Jun. 30, 2012 (Unaudited)
Credit Risk RWA	57,985,148	47,661,656	42,949,145
Operational Risk RWA	3,081,431	3,081,431	2,913,004
Market Risk RWA	2,820,572	283,449	279,916
Total Pillar- I RWA	<u>63,887,151</u>	<u>51,026,536</u>	<u>46,142,065</u>
Tier I Capital	9,447,776	8,877,054	7,836,805
Tier II Capital	559,366	112,819	520,895
Total Tier I & II Capital	<u>10,007,142</u>	<u>8,989,873</u>	<u>8,357,700</u>
Capital Adequacy Ratio %			
Tier I Ratio	<u>14.79%</u>	17.40%	16.98%
Tier I + Tier II Ratio	<u>15.66%</u>	<u>17.62%</u>	<u>18.11%</u>

As of June 30, 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 and June 30, 2012, however, were calculated in accordance with Basel II and prior SAMA guidelines.

18. Basel III Pillar 3 disclosures

Certain additional quantitative disclosures are required under Basel III Pillar 3. These disclosures will be made available to the public on the Banks website (www.saib.com.sa) within 60 business days after June 30, 2013, as required by SAMA. Such disclosures are not subject to review or audit by the external auditors of the Bank.

19. Comparative figures

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