

Saudi Hollandi Bank  **البنك السعودي الهولندي**

SAUDI HOLLANDI BANK
(A Saudi Joint Stock Company)

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

**FOR THE NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2015**



KPMG Al Fozan & Al Sadhan

**Report on Review of Interim Condensed Consolidated Financial Statements
To the Shareholders of Saudi Hollandi Bank (A Saudi Joint Stock Company)**

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Saudi Hollandi Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group") as at September 30, 2015, and the related interim consolidated statements of income and comprehensive income for the three and nine month periods then ended, and the interim consolidated statements of changes in shareholders' equity and cash flows for the nine month period then ended and the notes from (1) to (19) which forms an integral part of these interim condensed consolidated financial statements. We have not reviewed note (18), nor the information related to "Disclosures under Basel III framework" cross-referenced therein, which is not required to be within the scope of our review.

The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.



KPMG Al Fozan & Al Sadhan

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (17) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (17) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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9 Muhurram 1437H
22 October 2015



Saudi Hollandi Bank
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	<i>Notes</i>	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
ASSETS				
Cash and balances with SAMA		6,953,141	9,523,463	5,719,592
Due from banks and other financial institutions		672,662	538,789	967,608
Investments, net	5	20,674,011	18,783,967	19,414,471
Loans and advances, net	6	73,190,832	65,147,828	63,368,710
Investment in an associate		14,156	12,793	10,832
Property and equipment, net		736,609	526,388	517,431
Other assets	7	1,771,142	2,085,990	1,595,760
Total assets		104,012,553	96,619,218	91,594,404
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		4,050,318	3,054,640	1,815,171
Customers' deposits	8	82,696,849	76,813,865	72,691,209
Subordinated debt		3,900,000	3,900,000	4,625,000
Other liabilities		1,776,428	2,108,831	2,128,447
Total liabilities		92,423,595	85,877,336	81,259,827
Shareholders' equity				
Share capital		5,715,360	4,762,800	4,762,800
Statutory reserve		3,536,355	3,536,355	3,081,128
General reserve		130,000	130,000	130,000
Reserve for bonus shares	14	-	952,560	-
Other reserves		(18,824)	3,564	63,296
Retained earnings		2,280,409	709,306	2,274,381
Proposed dividends		-	619,164	-
Share based plan reserve	15	(54,342)	28,133	22,972
Total shareholders' equity		11,588,958	10,741,882	10,334,577
Total liabilities and shareholders' equity		104,012,553	96,619,218	91,594,404

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

Saudi Hollandi Bank
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED INCOME STATEMENT

For the nine month period ended September 30, 2015

Amounts in SAR'000 (Un-audited)

	Note	For the three month period ended		For the nine month period ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Special commission income		743,741	640,189	2,101,132	1,818,579
Special commission expense		138,006	131,074	395,896	382,072
Net special commission income		605,735	509,115	1,705,236	1,436,507
Fee and commission income, net		195,373	214,120	677,942	677,877
Exchange income, net		40,358	42,380	136,111	118,084
Trading income, net		36,590	39,358	189,116	117,469
(Losses) / gains on investment held as FVIS (trading), net		(1,088)	841	6,092	1,077
Dividend income		2,846	2,852	5,480	6,033
Gains on non-trading investments		109	-	15,041	20,014
Total operating income		879,923	808,666	2,735,018	2,377,061
Salaries and employee-related expenses		167,467	145,008	501,973	426,403
Rent and premises-related expenses		27,166	25,721	87,914	77,179
Depreciation and amortisation		29,720	26,106	87,705	77,436
General and administrative expenses		62,240	60,952	183,812	172,145
Impairment charge for credit losses and others, net		101,279	89,558	303,874	258,464
Total operating expenses		387,872	347,345	1,165,278	1,011,627
Operating income		492,051	461,321	1,569,740	1,365,434
Share in earnings / (loss) of an associate		927	502	1,363	(6,401)
Net income for the period		492,978	461,823	1,571,103	1,359,033
Basic and diluted earnings per share (Expressed in SAR per share)	14	0.86	0.81	2.75	2.38

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine month period ended September 30, 2015

Amounts in SAR'000 (Un-audited)

	For the three month period ended		For the nine month period ended	
	<u>September 30, 2015</u>	<u>September 30, 2014</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Net income for the period	492,978	461,823	1,571,103	1,359,033
Other comprehensive income				
<i>Other comprehensive income to be reclassified to consolidated income statement in subsequent periods</i>				
Available for sale investments:				
- Net change in fair value	(37,325)	38,373	(8,597)	60,273
- Net amounts transferred to the consolidated income statement	243	449	(13,791)	(18,667)
	<u>(37,082)</u>	<u>38,822</u>	<u>(22,388)</u>	<u>41,606</u>
Total comprehensive income for the period	<u>455,896</u>	<u>500,645</u>	<u>1,548,715</u>	<u>1,400,639</u>

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

Saudi Hollandi Bank
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine month period ended September 30, 2015
Amounts in SAR'000 (Un-audited)

	Notes	Share capital	Statutory reserve	General reserve	Reserve for bonus shares	Other reserves	Retained earnings	Proposed dividend	Share based plan reserve	Total shareholders' equity
Balance at the beginning of the period		4,762,800	3,536,355	130,000	952,560	3,564	709,306	619,164	28,133	10,741,882
Net income for the period		-	-	-	-	-	1,571,103	-	-	1,571,103
Net change in fair value		-	-	-	-	(8,597)	-	-	-	(8,597)
Net amounts transferred to consolidated income statement		-	-	-	-	(13,791)	-	-	-	(13,791)
Total comprehensive income for the period		-	-	-	-	(22,388)	1,571,103	-	-	1,548,715
Bonus shares issued	14	952,560	-	-	(952,560)	-	-	-	-	-
Dividends paid		-	-	-	-	(619,164)	-	(619,164)	-	(619,164)
Bank's shares held by SHB staff share Plan Fund	15	-	-	-	-	-	-	-	(86,477)	(86,477)
Share based plan transactions		-	-	-	-	-	-	-	4,002	4,002
Balance at the end of the period		5,715,360	3,536,355	130,000	-	(18,824)	2,280,409	-	(54,342)	11,588,958
2014										
Balance at the beginning of the period		3,969,000	3,081,128	130,000	793,800	21,690	915,348	468,342	22,120	9,401,428
Net income for the period		-	-	-	-	-	1,359,033	-	-	1,359,033
Net change in fair value		-	-	-	-	60,273	-	-	-	60,273
Net amounts transferred to consolidated income statement		-	-	-	-	(18,667)	-	-	-	(18,667)
Total comprehensive income for the period		-	-	-	-	41,606	1,359,033	-	-	1,400,639
Bonus shares issued	14	793,800	-	-	(793,800)	-	-	-	-	-
Dividends paid		-	-	-	-	(468,342)	-	(468,342)	-	(468,342)
Share based plan transactions		-	-	-	-	-	-	-	852	852
Balance at the end of the period		4,762,800	3,081,128	130,000	-	63,296	2,274,381	-	22,972	10,334,577

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

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended September 30, 2015

Amounts in SAR'000 (Un-audited)

	<i>Note</i>	<i>2015</i>	<i>2014</i>
OPERATING ACTIVITIES			
Net income for the period		1,571,103	1,359,033
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(82,174)	(76,766)
Gains on non-trading investments		(15,041)	(20,014)
Losses / (gains) on investment held as FVIS (trading), net		604	(236)
Depreciation and amortisation		87,705	77,436
Gain on disposal of property and equipment		(100)	-
Share based plan transactions		12,137	9,814
Impairment charge for credit losses and others, net		303,874	258,464
Share in (earnings) / loss of an associate		(1,363)	6,401
		<u>1,876,745</u>	<u>1,614,132</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(553,020)	(582,493)
Investments held as FVIS (trading), net		(3,953)	-
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		-	937,000
Loans and advances, net		(8,274,231)	(10,415,914)
Other assets		228,371	(319,908)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		995,678	(679,107)
Customers' deposits		5,882,984	10,815,760
Other liabilities		(332,403)	56,341
Net cash (used in) / from operating activities		<u>(179,829)</u>	<u>1,425,811</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		10,963,572	10,958,699
Purchase of non-trading investments		(12,856,222)	(13,385,622)
Purchase of property and equipment		(297,926)	(90,065)
Proceeds from sale of property		100	-
Net cash used in investing activities		<u>(2,190,476)</u>	<u>(2,516,988)</u>
FINANCING ACTIVITIES			
Dividends paid		(619,164)	(281,005)
Net cash used in financing activities		<u>(619,164)</u>	<u>(281,005)</u>
Net decrease in cash and cash equivalents		<u>(2,989,469)</u>	<u>(1,372,182)</u>
Cash and cash equivalents at beginning of the period		<u>6,310,248</u>	<u>4,373,210</u>
Cash and cash equivalents at end of the period	10	<u>3,320,779</u>	<u>3,001,028</u>
Special commission received during the period		<u>2,042,390</u>	<u>1,797,884</u>
Special commission paid during the period		<u>410,576</u>	<u>310,682</u>
Supplemental non-cash information			
Net changes in fair value and transfers to interim consolidated income statement		<u>(22,388)</u>	<u>41,606</u>

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

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2015

1. GENERAL

Saudi Hollandi Bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 57 branches (December 31, 2014: 55 branches and September 30, 2014: 54 branches) in the Kingdom of Saudi Arabia. The postal address of the Bank's head office is:

Saudi Hollandi Bank
Head Office
Al - Dhabab Street
P O Box 1467
Riyadh 11431
Kingdom of Saudi Arabia

The objective of the Bank and its subsidiaries (collectively referred to as "the Group") is to provide a full range of banking and investment services. The Group also provides to its customers Islamic (non commission based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries. The details of these subsidiaries are set out below:

Saudi Hollandi Capital ("SHC")

SHC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. SHC commenced its operations effective 2 Rabi'II 1429H (corresponding to April 9, 2008).

Saudi Hollandi Real Estate Company ("SHREC")

SHREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collateral.

Saudi Hollandi Insurance Agency Company ("SHIAC")

SHIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard No. 34 – "Interim Financial Reporting". The Bank prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full 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, 2014.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing of these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2014.

Saudi Hollandi Bank

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2015

2 BASIS OF PREPARATION *(Continued)*

The Bank presents its interim consolidated statement of financial position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the interim consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the interim consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank. These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

3. BASIS OF CONSOLIDATION

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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

The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The interim condensed consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the six elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the period are included in the interim condensed consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these interim condensed consolidated financial statements except when the Group controls the entity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2015

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, 2014 except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the interim condensed consolidated financial statements of the Group on the current period or prior period and is expected to have no significant effect in future periods:

Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 are applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.

Annual improvements to IFRS 2010-2012 and 2011-2013 cycle is applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

- IFRS 1 – “first time adoption of IFRS”: the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.
- IFRS 2 amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’.
- IFRS 8 – “operating segments” has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.
- IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.
- IAS 16 – “Property plant and equipment” and IAS 38 – “intangible assets”: – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 – “related party disclosures”– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2015

Amounts in SAR '000

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
Available for sale (AFS)	639,345	566,926	578,515
Other investments held at amortised cost (OI)	19,955,592	18,131,282	18,749,689
Held to maturity (HTM)	75,725	85,759	86,267
Held as FVIS - trading	3,349	-	-
Total	20,674,011	18,783,967	19,414,471

b) Investments reclassification

Management identified certain AFS investments, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to exit or trade in the short term. As a result, these instruments were reclassified at that date from AFS to OI at fair value. Had the reclassification not been made, other reserves would have included unrealised fair value gains amounting to SAR 9.257 million (*unaudited*) (December 31, 2014: SAR 12.7 million (*audited*) and September 30, 2014: SAR 10.31 million (*unaudited*)) and shareholders' equity would have been higher by the same amount.

The following table shows carrying values and fair values of the reclassified investments.

	<i>Carrying value</i>				<i>Fair value</i>	
	<i>September 30, 2015 (Unaudited)</i>	<i>December 31 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
AFS securities reclassified	<u>104,786</u>	<u>148,516</u>	<u>147,911</u>	<u>103,923</u>	<u>149,617</u>	<u>147,207</u>

6. LOANS AND ADVANCES, NET

	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
Consumer loans	13,941,300	11,342,508	10,147,769
Commercial loans and overdrafts	59,480,003	54,043,993	53,436,400
Credit cards	314,313	271,756	267,017
Performing loans and advances	73,735,616	65,658,257	63,851,186
Non-performing loans and advances	827,612	841,622	796,335
Gross loans and advances	74,563,228	66,499,879	64,647,521
Impairment charge for credit losses and others, net	(1,372,396)	(1,352,051)	(1,278,811)
Loans and advances, net	73,190,832	65,147,828	63,368,710

7. OTHER ASSETS

Other assets includes an amount of SAR 352.61 million (*unaudited*) (December 31, 2014 :SAR 444.82 million (*audited*) and September 30, 2014 : SAR 444.18 million (*unaudited*) which upon default by the original counterparty is expected to be recovered from a related party based on a conditional settlement agreement being finalized between the Group and the related party. The above exposure as at 30 September 2015 is net of impairment provision amounting to SAR 85.6 million. Impairment amounting to SAR 85.6 (*unaudited*) million for the nine month period ended 30 September 2015 (three month period ended 30 September 2015: SAR 64.2 million (*unaudited*)) is included in the consolidated income statement.

Saudi Hollandi Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2015

Amounts in SAR '000

8. CUSTOMERS' DEPOSITS

	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
Time	47,770,308	45,257,743	42,424,932
Demand	33,345,246	29,964,157	28,609,727
Saving	435,841	407,754	451,699
Other	1,145,454	1,184,211	1,204,851
Total	82,696,849	76,813,865	72,691,209

9. DERIVATIVES

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

<i>Derivative financial instruments</i>	<i>September 30, 2015 (Un-audited)</i>			<i>December 31, 2014 (Audited)</i>			<i>September 30, 2014 (Un-audited)</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
Held for trading:									
Commission rate swaps	135,907	41,081	28,705,590	121,637	35,434	27,079,104	122,265	31,160	28,212,032
Foreign exchange and commodity forward contracts	67,922	36,352	19,560,961	113,854	96,299	21,060,276	100,387	74,557	19,925,318
Currency and commodity options	143,433	92,565	48,190,991	119,130	119,130	44,267,042	48,936	49,028	44,452,942
Commission rate options	690	314	470,800	1	1	1,000,000	1	1	1,000,000
Held as fair value hedges:									
Commission rate swaps	-	2,037	37,504	-	2,402	187,730	-	2,726	187,540
Total	347,952	172,349	96,965,846	354,622	253,266	93,594,152	271,589	157,472	93,777,832

10. CASH AND CASH EQUIVALENTS

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

	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
Cash and balances with SAMA excluding statutory deposits	2,648,117	5,771,459	2,033,420
Due from banks and other financial institutions maturing within three months from the acquisition date	672,662	538,789	967,608
Total	3,320,779	6,310,248	3,001,028

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11. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>September 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>September 30, 2014 (Unaudited)</i>
Letters of guarantee	22,926,679	23,179,750	22,805,952
Letters of credit	4,246,203	4,921,726	4,812,958
Acceptances	3,234,127	2,688,999	2,879,870
Irrevocable commitments to extend credit	1,847,199	1,272,453	1,443,066
Total	<u>32,254,208</u>	<u>32,062,928</u>	<u>31,941,846</u>

12. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the interim consolidated income statement. There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2014. Following are the reportable operating segments of the Group:

Corporate Banking

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

Personal Banking

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

Treasury

Treasury transacts mainly in money market, foreign exchange, commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's investment portfolio.

Investment banking and investment services

The investment banking and investment services group offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Others

Others include the group-wide assets and liabilities management of the Group's operations other than the Treasury's core activities, maintaining group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing based on the Group's methodology as approved by ALCO, the unallocated income and expenses relating to Head Office and other departments and the unallocated assets and liabilities.

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12. OPERATING SEGMENTS (Continued)

- a) The following is an analysis of the Group's assets and liabilities as at September 30, 2015 and 2014, revenue and results by operating segments for the nine month periods ended September 30, 2015 and 2014 (Un-audited).

2015	Corporate banking	Personal banking	Treasury	Investment banking and investment services	Others	Total
Total assets	57,325,921	16,210,116	22,899,818	544,214	7,032,484	104,012,553
Total liabilities	53,688,390	28,470,690	4,050,318	18,359	6,195,838	92,423,595
Total operating income, net	1,727,823	821,960	462,660	55,227	(332,652)	2,735,018
Total operating expenses (without impairment charges for credit losses and others, net)	290,940	466,358	68,023	36,083	-	861,404
Impairment charge for credit losses and others, net	163,336	67,891	-	-	72,647	303,874
Non operating income	-	-	-	-	1,363	1,363
Net income for the period	1,273,547	287,711	394,637	19,144	(403,936)	1,571,103

2014	Corporate banking	Personal banking	Treasury	Investment banking and investment services	Others	Total
Total assets	51,531,785	12,080,821	21,650,902	526,952	5,803,944	91,594,404
Total liabilities	51,354,705	21,336,504	1,815,171	15,623	6,737,824	81,259,827
Total operating income, net	1,523,269	674,984	419,530	62,616	(303,338)	2,377,061
Total operating expenses (without impairment charges for credit losses, net)	254,295	400,473	66,044	32,351	-	753,163
Impairment charge for credit losses and others, net	214,789	43,675	-	-	-	258,464
Non operating loss	-	-	-	-	(6,401)	(6,401)
Net income for the period	1,054,185	230,836	353,486	30,265	(309,739)	1,359,033

13. ZAKAT AND INCOME TAX

The Bank has filed its Zakat and income tax returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (the "DZIT"). The Bank has received Zakat and income tax assessments for the years 2005 to 2009 and a partial assessment for the year 2010 raising additional demands aggregating to SAR 115 million. This additional exposure is mainly relating to Zakat arising on account of disallowances of certain long term investments by the DZIT. The basis for this additional liability is being contested by the Bank in conjunction with all the other Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat and income tax assessment for the years 2011 to 2014 have not been finalized by the DZIT and the Bank is not able to determine reliably the impact of such assessments.

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14. BONUS SHARES ISSUED, DIVIDENDS AND EARNINGS PER SHARE (EPS)

The shareholders of the Bank approved a bonus issue of one share for every five shares held in their extra ordinary general assembly meeting held on March 17, 2015. As a result 95.26 million shares (2014: 79.38 million shares, one share for every five shares held) of SR 10 each, were issued by capitalizing retained earnings.

During the nine month period ended September 30, 2015 the Group also settled a cash dividend of SAR 619.16 million (2014: SAR 468.34 million).

Basic earnings per share for the periods ended September 30, 2015 and 2014 are calculated by dividing the net income for the period attributable to the equity shareholders by 571.54 million shares to give a retrospective effect of change in the number of shares increased as a result of the bonus shares issued.

15. SHARE BASED PLAN RESERVE

During the current period, the Bank has reassessed its position and has consolidated the Staff Share Plan Fund (the "Fund") in its interim condensed consolidated financial statements. Consequently the Group has recognized the Bank's shares held by the Fund as treasury shares amounting to SAR 86.48 million and have presented these under share based plan reserve in the interim consolidated statement of changes in shareholders' equity.

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

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

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

<i>September 30, 2015 (un-audited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets:				
Derivative financial instruments	-	347,952	-	347,952
Financial assets held as FVIS	3,349	-	-	3,349
Financial investments available for sale	447,900	188,007	3,438	639,345
Total	451,249	535,959	3,438	990,646
Financial liabilities:				
Derivative financial instruments	-	172,349	-	172,349
Total	-	172,349	-	172,349
<i>December 31, 2014 (audited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets:				
Derivative financial instruments	-	354,622	-	354,622
Financial investments available for sale	362,432	201,056	3,438	566,926
Total	362,432	555,678	3,438	921,548
Financial liabilities:				
Derivative financial instruments	-	253,266	-	253,266
Total	-	253,266	-	253,266

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16. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

<i>September 30, 2014 (un-audited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets:				
Derivative financial instruments	-	271,589	-	271,589
Financial investments available for sale	368,037	207,040	3,438	578,515
Total	368,037	478,629	3,438	850,104
Financial liabilities:				
Derivative financial instruments	-	157,472	-	157,472
Total	-	157,472	-	157,472

The fair values of financial instruments included in the interim consolidated statement of financial position are not significantly different from their carrying values. The estimated fair values of other investments held at amortised cost and 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 value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates. The fair values of due from banks and other financial institutions and due to financial institutions are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with commission rates re-priced every six months.

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

17. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA and to safeguard the Group's ability to continue as a going concern by maintaining a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk.

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17. CAPITAL ADEQUACY (continued)

The following table summarises the Bank's Pillar-I RWA, Tier I & Tier II capital and capital adequacy ratios.

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)	September 30, 2014 (Unaudited)
Credit Risk RWA	93,478,417	85,399,158	83,154,954
Operational Risk RWA	4,545,250	4,041,288	3,948,463
Market Risk RWA	368,830	558,494	472,926
Total Pillar-I RWA	98,392,497	89,998,940	87,576,343
Tier I Capital	11,588,958	10,094,585	10,311,604
Tier II Capital	4,180,649	4,171,160	5,001,725
Total Tier I & II Capital	15,769,607	14,265,745	15,313,329
Capital Adequacy Ratio %			
Tier I ratio	11.78	11.22	11.77
Tier I + Tier II ratio	16.03	15.85	17.49

18. DISCLOSURES UNDER BASEL III FRAMEWORK

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

19. COMPARATIVE FIGURES

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