

Saudi Hollandi Bank  البنك السعودي الهولندي

SAUDI HOLLANDI BANK
(A Saudi Joint Stock Company)

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

**FOR THE SIX MONTH PERIOD ENDED
JUNE 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 June 30, 2015, and the related interim consolidated statements of income and comprehensive income for the three and six month periods then ended, and the interim consolidated statements of changes in shareholders' equity and cash flows for the six months 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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27 July 2015



Saudi Hollandi Bank
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	<i>Notes</i>	<i>June 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>June 30, 2014 (Unaudited)</i>
ASSETS				
Cash and balances with SAMA		7,352,202	9,523,463	6,736,811
Due from banks and other financial institutions		808,671	538,789	1,251,540
Investments, net	5	20,519,478	18,783,967	19,065,228
Loans and advances, net	6	71,202,462	65,147,828	60,447,957
Investment in an associate		13,229	12,793	10,330
Property and equipment, net		671,897	526,388	515,200
Other assets	7	1,704,563	2,085,990	1,462,241
Total assets		102,272,502	96,619,218	89,489,307
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,800,649	3,054,640	2,034,242
Customers' deposits	8	83,353,869	76,813,865	71,157,481
Subordinated debt		3,900,000	3,900,000	4,625,000
Other liabilities		2,090,701	2,108,831	1,843,325
Total liabilities		91,145,219	85,877,336	79,660,048
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		18,258	3,564	24,474
Retained earnings		1,787,431	709,306	1,812,558
Proposed gross dividends		-	619,164	-
Share based plan reserve	15	(60,121)	28,133	18,299
Total shareholders' equity		11,127,283	10,741,882	9,829,259
Total liabilities and shareholders' equity		102,272,502	96,619,218	89,489,307

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 six month period ended June 30, 2015

Amounts in SAR'000 (Un-audited)

	<u>Note</u>	For the three month period ended		For the six month period ended	
		<i>June 30, 2015</i>	<i>June 30, 2014</i>	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Special commission income		690,943	605,161	1,357,391	1,178,390
Special commission expense		127,124	124,527	257,890	250,998
Net special commission income		563,819	480,634	1,099,501	927,392
Fee and commission income, net		246,701	241,511	482,569	463,757
Exchange income, net		50,017	39,962	95,753	75,704
Trading income, net		62,029	44,358	159,706	78,347
Dividend income		456	2,493	2,634	3,181
Gains on non-trading investments		378	2,282	14,932	20,014
Total operating income		923,400	811,240	1,855,095	1,568,395
Salaries and employee-related expenses		160,668	142,366	334,506	281,395
Rent and premises-related expenses		30,372	25,728	60,748	51,458
Depreciation and amortisation		29,659	26,006	57,985	51,330
General and administrative expenses		60,812	55,501	121,572	111,193
Other provisions, net		8,400	-	8,400	-
Impairment charge for credit losses, net		92,887	79,679	194,195	168,906
Total operating expenses		382,798	329,280	777,406	664,282
Operating income		540,602	481,960	1,077,689	904,113
Share in earnings / (loss) of an associate		(1,415)	(1,715)	436	(6,903)
Net income for the period		539,187	480,245	1,078,125	897,210
Basic and diluted earnings per share (Expressed in SAR per share)	14	0.94	0.84	1.89	1.57

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 COMPREHENSIVE INCOME

For the six month period ended June 30, 2015

Amounts in SAR'000 (Un-audited)

	For the three month period ended		For the six month period ended	
	<i>June 30,</i> <u>2015</u>	<i>June 30,</i> <u>2014</u>	<i>June 30,</i> <u>2015</u>	<i>June 30,</i> <u>2014</u>
Net income for the period	539,187	480,245	1,078,125	897,210
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	4,576	(7,805)	28,728	21,900
- Net amounts transferred to the consolidated income statement	71	(1,833)	(14,034)	(19,116)
	<u>4,647</u>	<u>(9,638)</u>	<u>14,694</u>	<u>2,784</u>
Total comprehensive income for the period	<u>543,834</u>	<u>470,607</u>	<u>1,092,819</u>	<u>899,994</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 six month period ended June 30, 2015
Amounts in SAR '000 (Un-audited)

	Notes	Share capital	Statutory reserve	General reserve	Reserve for bonus shares	Other reserves	Retained earnings	Proposed gross 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		-	-	-	-	-	1,078,125	-	-	1,078,125
Net change in fair value		-	-	-	-	28,728	-	-	-	28,728
Net amounts transferred to the interim consolidated income statement		-	-	-	-	(14,034)	-	-	-	(14,034)
Total comprehensive income for the period		-	-	-	-	14,694	1,078,125	-	-	1,092,819
Bonus shares issued	14	952,560	-	-	(952,560)	-	-	-	-	-
Dividends paid		-	-	-	-	-	(619,164)	-	-	(619,164)
Bank's shares held by SHB staff share Plan Fund	15	-	-	-	-	-	-	-	(86,477)	(86,477)
Share based plan transactions		-	-	-	-	-	-	-	(1,777)	(1,777)
Balance at the end of the period		5,715,360	3,536,355	130,000	-	18,258	1,787,431	-	(60,121)	11,127,283
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		-	-	-	-	-	897,210	-	-	897,210
Net change in fair value		-	-	-	-	21,900	-	-	-	21,900
Net amounts transferred to the interim consolidated income statement		-	-	-	-	(19,116)	-	-	-	(19,116)
Total comprehensive income for the period		-	-	-	-	2,784	897,210	-	-	899,994
Bonus shares issued	14	793,800	-	-	(793,800)	-	-	-	-	-
Dividends paid		-	-	-	-	-	(468,342)	-	-	(468,342)
Share based plan transactions		-	-	-	-	-	-	-	(3,821)	(3,821)
Balance at the end of the period		4,762,800	3,081,128	130,000	-	24,474	1,812,558	-	18,299	9,829,259

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 six month period ended June 30, 2015

Amounts in SAR'000 (Un-audited)

	<i>Note</i>	2015	2014
OPERATING ACTIVITIES			
Net income for the period		1,078,125	897,210
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(55,939)	(49,606)
Gains on non-trading investments		(14,932)	(20,014)
Gain on investments held as FVIS		(218)	(236)
Depreciation and amortisation		57,985	51,330
Gain on disposal of property and equipment		(100)	-
Share based plan transactions		8,091	6,543
Impairment charge for credit losses		194,195	168,906
Other provisions, net		8,400	-
Share in (earnings) / loss of an associate		(436)	6,903
		<u>1,275,171</u>	<u>1,061,036</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(388,678)	(365,405)
Investments held as FVIS		(7,683)	(712)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		-	937,000
Loans and advances, net		(6,248,829)	(7,405,603)
Other assets		273,535	(187,079)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,253,991)	(460,036)
Customers' deposits		6,540,004	9,282,032
Other liabilities		(18,130)	(228,781)
		<u>171,399</u>	<u>2,632,452</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		8,354,849	8,823,745
Purchase of non-trading investments		(9,993,747)	(10,967,407)
Purchase of property and equipment		(203,494)	(61,728)
Proceeds from sale of property		100	-
		<u>(1,842,292)</u>	<u>(2,205,390)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Dividends paid net of Zakat and tax recovered from shareholders		(619,164)	(281,005)
		<u>(619,164)</u>	<u>(281,005)</u>
Net cash used in financing activities			
Net (decrease) / increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		6,310,248	4,373,210
Cash and cash equivalents at end of the period	10	<u>4,020,191</u>	<u>4,519,267</u>
Special commission received during the period		1,337,166	1,159,843
Special commission paid during the period		263,922	245,112
Supplemental non-cash information			
Net changes in fair value and transfers to interim consolidated income statement		<u>14,694</u>	<u>2,784</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 six month period ended June 30, 2015

Amounts in SAR '000

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 56 branches (December 31, 2014: 55 branches and June 30, 2014: 53 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 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2015

Amounts in SAR '000

2 BASIS OF PREPARATION (Continued)

The Bank presents its 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.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2015

Amounts in SAR '000

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 3 – “business combinations” amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.
- 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.
- IAS 40 – “investment property” clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

Saudi Hollandi Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2015

Amounts in SAR '000

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	<u>June 30,</u> <u>2015</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2014</u> <u>(Audited)</u>	<u>June 30,</u> <u>2014</u> <u>(Unaudited)</u>
Available for sale (AFS)	560,460	566,926	539,594
Other investments held at amortised cost (OI)	19,867,164	18,131,282	18,430,338
Held to maturity (HTM)	83,953	85,759	94,348
Held as FVIS - trading	7,901	-	948
Total	<u>20,519,478</u>	<u>18,783,967</u>	<u>19,065,228</u>

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 9.86 million (*unaudited*) (December 31, 2014: SAR 12.7 million (*audited*)) and June 30, 2014: SAR 9.95 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.

	<u>June 30,</u> <u>2015</u> <u>(Unaudited)</u>	<u>Carrying value</u> <u>December 31,</u> <u>2014</u> <u>(Audited)</u>	<u>June 30,</u> <u>2014</u> <u>(Unaudited)</u>	<u>June 30,</u> <u>2015</u> <u>(Unaudited)</u>	<u>Fair value</u> <u>December 31,</u> <u>2014</u> <u>(Audited)</u>	<u>June 30,</u> <u>2014</u> <u>(Unaudited)</u>
AFS securities reclassified	<u>104,413</u>	<u>148,516</u>	<u>147,422</u>	<u>104,528</u>	<u>149,617</u>	<u>146,843</u>

6. LOANS AND ADVANCES, NET

	<u>June 30,</u> <u>2015</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2014</u> <u>(Audited)</u>	<u>June 30,</u> <u>2014</u> <u>(Unaudited)</u>
Consumer loans	13,201,829	11,342,508	9,462,134
Commercial loans and overdrafts	58,282,923	54,043,993	51,180,877
Credit cards	289,175	271,756	263,669
Performing loans and advances	71,773,927	65,658,257	60,906,680
Non-performing loans and advances	863,108	841,622	756,263
Gross loans and advances	72,637,035	66,499,879	61,662,943
Allowance for impairment of credit losses	(1,434,573)	(1,352,051)	(1,214,986)
Loans and advances, net	<u>71,202,462</u>	<u>65,147,828</u>	<u>60,447,957</u>

7. OTHER ASSETS

Other assets includes an amount of SAR 417.96 million (*unaudited*) (December 31, 2014 :SAR 444.82 million (*audited*)) and June 30, 2014 : SAR 444.54 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.

Saudi Hollandi Bank
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2015

Amounts in SAR '000

8. CUSTOMERS' DEPOSITS

	<i>June 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>June 30, 2014 (Unaudited)</i>
Time	48,661,494	45,257,743	39,665,374
Demand	32,940,443	29,964,157	29,927,049
Saving	455,486	407,754	473,392
Other	1,296,446	1,184,211	1,091,666
Total	83,353,869	76,813,865	71,157,481

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>June 30, 2015 (Un-audited)</i>			<i>December 31, 2014 (Audited)</i>			<i>June 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	131,477	36,336	28,776,362	121,637	35,434	27,079,104	136,689	47,568	27,676,744
Foreign exchange and commodity forward contracts	66,865	41,233	21,801,633	113,854	96,299	21,060,276	14,264	40,814	24,629,720
Currency and commodity options	152,362	101,317	47,954,564	119,130	119,130	44,267,042	40,381	39,784	31,370,866
Commission rate options	394	-	470,800	1	1	1,000,000	2	2	1,000,000
Held as fair value hedges:									
Commission rate swaps	-	1,766	131,266	-	2,402	187,730	-	4,217	338,099
Total	351,098	180,652	99,134,625	354,622	253,266	93,594,152	191,336	132,385	85,015,429

10. CASH AND CASH EQUIVALENTS

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

	<i>June 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>June 30, 2014 (Unaudited)</i>
Cash and balances with SAMA excluding statutory deposits	3,211,520	5,771,459	3,267,727
Due from banks and other financial institutions maturing within three months from the acquisition date	808,671	538,789	1,251,540
Total	4,020,191	6,310,248	4,519,267

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11. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>June 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>June 30, 2014 (Unaudited)</i>
Letters of guarantee	23,231,091	23,179,750	21,207,456
Letters of credit	5,098,362	4,921,726	5,682,103
Acceptances	3,159,493	2,688,999	3,105,787
Irrevocable commitments to extend credit	<u>1,527,994</u>	<u>1,272,453</u>	<u>1,423,056</u>
Total	<u>33,016,940</u>	<u>32,062,928</u>	<u>31,418,402</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 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 June 30, 2015 and 2014, revenue and results by operating segments for the six month periods ended June 30, 2015 and 2014 (Un-audited).

2015	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Treasury</i>	<i>Investment banking and investment services</i>	<i>Others</i>	<i>Total</i>
Total assets	55,948,741	15,608,511	23,641,362	543,913	6,529,975	102,272,502
Total liabilities	50,748,374	27,987,974	1,800,649	17,882	10,590,340	91,145,219
Total operating income, net	1,160,232	535,642	317,172	42,528	(200,479)	1,855,095
Total operating expenses (without impairment charges for credit losses)	203,208	307,698	47,951	24,354	-	583,211
Impairment charges net of recoveries	153,302	40,893	-	-	-	194,195
Net operating income for the period	803,722	187,051	269,221	18,174	(200,479)	1,077,689
2014	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Treasury</i>	<i>Investment banking and investment services</i>	<i>Others</i>	<i>Total</i>
Total assets	49,332,400	11,330,661	22,894,079	512,442	5,419,725	89,489,307
Total liabilities	47,421,176	20,716,197	2,034,242	14,827	9,473,606	79,660,048
Total operating income, net	997,895	432,443	264,821	38,303	(165,067)	1,568,395
Total operating expenses (without impairment charges for credit losses)	171,273	261,545	40,985	21,573	-	495,376
Impairment charges net of recoveries	138,394	30,512	-	-	-	168,906
Net operating income for the period	688,228	140,386	223,836	16,730	(165,067)	904,113

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 six month period ended June 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 June 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 FUND

During the current period, the Bank has reassessed its position and has consolidated the Staff Share Plan 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>June 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	-	351,098	-	351,098
Financial assets held as FVIS	7,901	-	-	7,901
Financial investments available for sale	366,647	190,375	3,438	560,460
Total	374,548	541,473	3,438	919,459
Financial liabilities:				
Derivative financial instruments	-	180,652	-	180,652
Total	-	180,652	-	180,652
<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>June 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	-	191,336	-	191,336
Financial assets held as FVIS	948	-	-	948
Financial investments available for sale	326,819	209,337	3,438	539,594
Total	327,767	400,673	3,438	731,878
Financial liabilities:				
Derivative financial instruments	-	132,385	-	132,385
Total	-	132,385	-	132,385

The fair values of financial instruments included in the interim consolidated statement of financial position are not significantly different from the carrying values included in the interim condensed consolidated financial statements. 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.

	<i>June 30, 2015 (Unaudited)</i>	<i>December 31, 2014 (Audited)</i>	<i>June 30, 2014 (Unaudited)</i>
Credit Risk RWA	91,244,728	85,399,158	79,334,798
Operational Risk RWA	4,377,838	4,041,288	3,865,825
Market Risk RWA	<u>665,884</u>	<u>558,494</u>	<u>320,676</u>
Total Pillar-I RWA	<u>96,288,450</u>	<u>89,998,940</u>	<u>83,521,299</u>
Tier I Capital	11,127,283	10,094,585	9,810,960
Tier II Capital	<u>4,204,797</u>	<u>4,171,160</u>	<u>4,970,343</u>
Total Tier I & II Capital	<u>15,332,080</u>	<u>14,265,745</u>	<u>14,781,303</u>
Capital Adequacy Ratio %			
Tier I ratio	11.56	11.22	11.75
Tier I + Tier II ratio	15.92	15.85	17.70

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.