

**Independent auditors' review report on the  
Interim Condensed Consolidated Financial Statements**

To the Shareholders of Riyad Bank  
(A Saudi Joint Stock Company)

**Introduction:**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2017, and the related interim condensed consolidated statements of income and comprehensive income for the three-month and six-month period then ended and interim condensed consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended and explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information 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 International Standards on Auditing endorsed in the Kingdom of Saudi Arabia 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 IAS 34 and SAMA guidance on accounting for zakat and tax.

**Other Regulatory Matters:**

As required by SAMA, certain capital adequacy information has been disclosed in note (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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25 Shawwal 1438H  
19 July 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2017	31 December 2016	30 June 2016
	<u>Note</u>	<u>SAR'000</u>	<u>SAR'000</u>
		(Audited)	(Restated)
<b>ASSETS</b>		(Restated)	(Restated)
Cash and balances with SAMA		18,566,567	17,460,314
Due from banks and other financial institutions		12,442,842	8,905,684
Positive fair value of derivatives	8	115,746	318,355
Investments, net	5	43,082,109	42,787,389
Loans and advances, net	6	141,180,705	154,666,879
Investment in associates		555,236	537,090
Other real estate		235,057	241,355
Property and equipment, net		1,822,041	1,950,283
Other assets		989,877	908,339
<b>Total assets</b>		<u>218,990,180</u>	<u>227,775,688</u>
		(Audited)	(Restated)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		(Audited)	(Restated)
<b>Liabilities</b>			
Due to banks and other financial institutions		8,449,216	11,263,964
Negative fair value of derivatives	8	106,641	342,433
Customer deposits	7	156,979,717	164,043,257
Debt securities in issue		8,015,778	8,017,466
Other liabilities		8,811,491	6,710,888
<b>Total liabilities</b>		<u>182,362,843</u>	<u>190,378,008</u>
<b>Shareholders' equity</b>			
Share capital		30,000,000	30,000,000
Statutory reserve		2,936,093	2,100,471
Other reserves		681,930	530,339
Retained earnings		3,009,314	4,766,870
Proposed dividends		-	-
<b>Total shareholders' equity</b>		<u>36,627,337</u>	<u>37,397,680</u>
<b>Total liabilities and shareholders' equity</b>		<u>218,990,180</u>	<u>227,775,688</u>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	For the three month period ended 30 June		For the six month period ended 30 June		
	Note	2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000
Special commission income		1,821,314	1,802,508	3,658,963	3,477,108
Special commission expense		348,101	442,393	760,438	849,669
<b>Net special commission income</b>		<b>1,473,213</b>	<b>1,360,115</b>	<b>2,898,525</b>	<b>2,627,439</b>
Fee and commission income, net		348,094	419,319	749,162	827,612
Exchange income, net		70,674	106,378	143,040	198,943
Trading income, net		3,597	6,167	3,440	16,682
Dividend income		17,624	19,262	23,219	28,682
Gains on non-trading investments, net		67,898	100,674	146,443	78,312
Other operating income		2,814	15,073	13,331	236,492
<b>Total operating income, net</b>		<b>1,983,914</b>	<b>2,026,988</b>	<b>3,977,160</b>	<b>4,014,162</b>
Salaries and employee-related expenses		400,481	390,722	798,215	765,907
Rent and premises-related expenses		82,726	80,388	162,876	159,612
Depreciation of property and equipment		67,900	74,079	139,929	143,532
Other general and administrative expenses		212,576	193,266	396,037	372,376
Impairment charge for credit losses, net		371,453	85,108	588,566	189,924
Impairment charge (reversals) for investments		-	50,000	(14,040)	50,000
Other operating expenses		6,738	17,578	17,747	28,747
<b>Total operating expenses, net</b>		<b>1,141,874</b>	<b>891,141</b>	<b>2,089,330</b>	<b>1,710,098</b>
<b>Net operating income</b>		<b>842,040</b>	<b>1,135,847</b>	<b>1,887,830</b>	<b>2,304,064</b>
Share in earnings of associates, net		5,880	10,133	7,445	15,632
<b>Net income for the period</b>		<b>847,920</b>	<b>1,145,980</b>	<b>1,895,275</b>	<b>2,319,696</b>
<b>Basic and diluted earnings per share (in SAR)</b>	14	<b>0.28</b>	<b>0.38</b>	<b>0.63</b>	<b>0.77</b>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	For the three month period ended 30 June		For the six month period ended 30 June	
	2017 <u>SAR'000</u>	2016 <u>SAR'000</u>	2017 <u>SAR'000</u>	2016 <u>SAR'000</u>
<b>Net income for the period</b>	<b>847,920</b>	<b>1,145,980</b>	<b>1,895,275</b>	<b>2,319,696</b>
<b>Other comprehensive income:</b>				
Items that are or maybe reclassified back to interim condensed consolidated statement of income in subsequent periods				
- <b>Available for sale investments</b>				
Net change in fair value	150,528	354,034	300,043	315,608
Net amounts transferred to interim condensed consolidated statement of income	(62,386)	(103,229)	(151,042)	(82,736)
<b>Other comprehensive income for the period</b>	<b>88,142</b>	<b>250,805</b>	<b>149,001</b>	<b>232,872</b>
<b>Total comprehensive income for the period</b>	<b>936,062</b>	<b>1,396,785</b>	<b>2,044,276</b>	<b>2,552,568</b>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

For the six month period ended 30 June 2017 & 2016

	SAR'000					Total
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	
<b>30 June 2017</b>						
Balance at the beginning of the period as originally stated	30,000,000	2,936,093	532,929	2,604,039	1,700,000	37,773,061
Effect of restatement- Provision for zakat for 2016 (note 13)	-	-	-	-	(800,000)	(800,000)
Balance at the beginning of the period- (Restated) (note 13)	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Net change in fair value of available for sale investments	-	-	300,043	-	-	300,043
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	(151,042)	-	-	(151,042)
Net income for the period	-	-	-	1,895,275	-	1,895,275
Total comprehensive income	-	-	149,001	1,895,275	-	2,044,276
Final dividends - 2016 (note 13)	-	-	-	-	(900,000)	(900,000)
Interim dividends - 2017 (note 13)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat (note 13)	-	-	-	(440,000)	-	(440,000)
Balance at the end of the period	30,000,000	2,936,093	681,930	3,009,314	-	36,627,337
<b>30 June 2016</b>						
Balance at the beginning of the period as originally stated	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112
Effect of restatement- Provision for zakat for 2015 (note 13)	-	-	-	-	(250,000)	(250,000)
Balance at the beginning of the period- (Restated) (note 13)	30,000,000	2,100,471	297,467	2,847,174	1,050,000	36,295,112
Net change in fair value of available for sale investments	-	-	315,608	-	-	315,608
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	(82,736)	-	-	(82,736)
Net income for the period	-	-	-	2,319,696	-	2,319,696
Total comprehensive income	-	-	232,872	2,319,696	-	2,552,568
Final dividends - 2015	-	-	-	-	(1,050,000)	(1,050,000)
Provision for zakat (note 13) (Restated)	-	-	-	(400,000)	-	(400,000)
Balance at the end of the period (Restated)	30,000,000	2,100,471	530,339	4,766,870	-	37,397,680

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**

	For the six month period ended 30 June	
	2017	2016
	<u>Note</u>	
	<u>SAR'000</u>	<u>SAR'000</u>
<b>OPERATING ACTIVITIES</b>		
Net income for the period	1,895,275	2,319,696
<b>Adjustments to reconcile net income for the period to net cash from (used in) operating activities:</b>		
Accretion of discounts and amortisation of premium, net on non-trading investments, net	(25,322)	(13,098)
Gains on non-trading investments, net	(146,443)	(78,312)
Gains on trading investments, net	(1,583)	-
Depreciation of property and equipment	139,929	143,532
Share in earnings of associates, net	(7,445)	(15,632)
(Reversal) of impairment charge for investments	(14,040)	50,000
Impairment charge for credit losses, net	588,566	189,924
	<u>2,428,937</u>	<u>2,596,110</u>
<b>Net (increase) decrease in operating assets:</b>		
Statutory deposit with SAMA	90,137	897,367
Due from banks and other financial institutions maturing after three months from date of acquisition	(667,727)	(126,313)
Positive fair value of derivatives	73,549	(120,816)
Held for trading investments	(300,000)	-
Loans and advances	1,140,096	(9,790,612)
Other real estate	9,960	17,056
Other assets	(112,211)	(139,271)
<b>Net increase (decrease) in operating liabilities:</b>		
Due to banks and other financial institutions	(387,497)	6,764,271
Negative fair value of derivatives	(31,997)	155,304
Customer deposits	296,368	(3,808,876)
Other liabilities	380,677	(77,827)
<b>Net cash from (used in) operating activities</b>	<u>2,920,292</u>	<u>(3,633,607)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of non-trading investments	12,617,455	13,096,005
Purchase of non-trading investments	(9,907,586)	(10,833,882)
Purchase of property and equipment, net	(99,621)	(199,114)
<b>Net cash from investing activities</b>	<u>2,610,248</u>	<u>2,063,009</u>
<b>FINANCING ACTIVITIES</b>		
Dividend and Zakat paid	(928,053)	(1,131,780)
<b>Net cash used in financing activities</b>	<u>(928,053)</u>	<u>(1,131,780)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>4,602,487</u>	<u>(2,702,378)</u>
Cash and cash equivalents at beginning of the period	16,082,760	21,041,852
<b>Cash and cash equivalents at end of the period</b>	10 <u>20,685,247</u>	<u>18,339,474</u>
Special commission received during the period	<u>3,566,571</u>	<u>3,407,262</u>
Special commission paid during the period	<u>929,966</u>	<u>773,840</u>
<b>Supplemental non-cash information</b>		
Net changes in fair value and transfers to consolidated statement of income	<u>149,001</u>	<u>232,872</u>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**For the six months period ended 30 June 2017 & 2016****1. GENERAL**

Riyad Bank (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to 23 November 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to 18 November 1957G) through its 340 branches (30 June 2016: 334) in the Kingdom of Saudi Arabia, a branch in London, United Kingdom, an agency in Houston, United States, and a representative office in Singapore. The registered address of the Bank's Head Office is as follows:

Riyad Bank  
King Abdulaziz Road – Al-Murabba District  
P.O. Box 22622  
Riyadh 11416  
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 Islamic (non-interest based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The interim condensed consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries, a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; and d) Curzon Street Properties Limited incorporated in the Isle of Man; e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank. These entities are collectively referred to as "the Group".

**2. BASIS OF PREPARATION**

During 2017, Saudi Arabian Monetary Authority (SAMA) issued a Circular no. 381000074519 dated 11 April 2017 relating to the accounting for zakat and tax and subsequent amendments to the Circular were made by SAMA, through certain clarifications. The impact of the above are as follows:

- the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- Zakat and tax are to be accrued on a quarterly basis and recognized in consolidated statement of changes in shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the period ended 30 June 2017 have been prepared using the International Accounting Standard (IAS) 34 – Interim Financial Reporting and SAMA guidance for the accounting of zakat and tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and IFRS. This change in framework resulted in a change in accounting policy for zakat (as disclosed in note 4) and the effects of this change are disclosed in note 13 to the interim condensed consolidated financial statements.

The Group 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. The interim condensed consolidated financial statements do not include all information and disclosures required for the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016.

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 expenses. 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 for the year ended 31 December 2016.

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency, and are rounded off to the nearest thousand except as otherwise indicated.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**For the six months period ended 30 June 2017 & 2016****3. BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements also include the financial statements of the subsidiaries which are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

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 ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for:

a) Change in the accounting policy in relation to accounting for Zakat

The Group amended its accounting policy relating to zakat and have started to accrue zakat on a quarterly basis and charging it to retained earnings. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. Where no dividends were paid, zakat was accounted for on a payment basis. The Group has accounted for this change in the accounting policy relating to zakat retrospectively (see note 2) and the effects of the above change are disclosed in note 13 to the interim condensed consolidated financial statements

b) Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017.

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 2017 & 2016

5. INVESTMENTS, NET

Investments are classified as follows:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Investments:			
- Held for Trading (FVIS)	301,583	-	-
- Available for sale, net	15,653,529	16,013,987	15,502,746
- Other investments held at amortised cost, net	27,126,955	29,141,896	27,272,221
- Held to maturity, net	42	1,498	12,422
<b>Total</b>	<b>43,082,109</b>	<b>45,157,381</b>	<b>42,787,389</b>

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the Available for sale category.

The carrying and fair value of these reclassified investments as at 30 June 2017 was SAR 2,464 million (30 June 2016 was SAR 2,915 million).

Had the reclassification not occurred, the interim condensed consolidated income statement for the six months period ended 30 June 2017 would have included unrealised fair value gain on such reclassified investments amounting to SAR 96 million ( six months period ended 30 June 2016: unrealised fair value gain of SAR 120.8 million).

6. LOANS AND ADVANCES, NET

Loans and advances held at amortised cost comprise the following:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Consumer loans	39,119,511	38,035,114	37,937,266
Commercial loans and overdrafts	103,041,245	105,520,275	116,677,598
Credit cards	731,408	773,471	771,872
Performing loans and advances	142,892,164	144,328,860	155,386,736
Non-performing loans and advances	1,536,733	1,158,022	1,387,244
Gross loans and advances	144,428,897	145,486,882	156,773,980
Allowance for credit impairment	(3,248,192)	(2,577,515)	(2,107,101)
<b>Total</b>	<b>141,180,705</b>	<b>142,909,367</b>	<b>154,666,879</b>

7. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Current	76,445,458	77,846,981	72,735,523
Saving	351,174	324,982	306,120
Time	68,326,437	67,811,458	81,968,556
Others	11,856,648	10,699,928	9,033,058
<b>Total</b>	<b>156,979,717</b>	<b>156,683,349</b>	<b>164,043,257</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 2017 & 2016

8. 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 Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	30 June 2017 (Unaudited)			31 December 2016 (Audited)			30 June 2016 (Unaudited)		
	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000
<b>Held for trading:</b>									
Special commission rate swaps	58,849	(31,897)	8,345,207	57,693	(26,803)	7,992,359	79,818	(40,970)	9,308,101
Forward foreign exchange contracts	48,040	(65,737)	31,146,595	91,894	(71,763)	25,510,910	164,963	(228,872)	22,555,723
Currency options	8,857	(8,857)	5,628,230	39,708	(39,708)	8,376,319	71,372	(71,372)	10,651,871
<b>Held as fair value hedges:</b>									
Special commission rate swaps	-	(150)	187,515	-	(364)	75,000	2,202	(1,219)	1,930,474
<b>Total</b>	<b>115,746</b>	<b>(106,641)</b>	<b>45,307,547</b>	<b>189,295</b>	<b>(138,638)</b>	<b>41,954,588</b>	<b>318,355</b>	<b>(342,433)</b>	<b>44,446,169</b>

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

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

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Letters of credit	7,786,486	7,620,798	7,737,162
Letters of guarantee	66,111,844	71,849,338	77,794,455
Acceptances	1,928,736	2,119,841	2,804,158
Irrevocable commitments to extend credit	11,023,755	12,140,732	10,068,485
<b>Total</b>	<b>86,850,821</b>	<b>93,730,709</b>	<b>98,404,260</b>

b) Others

During the period ended 30 June 2017, there has been no change in the status of the Group's Zakat assessments. The Group's position with respect to stance on these assessments, has remained the same as that disclosed in the annual consolidated financial statements for the year ended 31 December 2016.

10. CASH AND CASH EQUIVALENTS

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

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	10,495,132	13,100,605	9,560,103
Due from banks and other financial institutions maturing within three months from date of acquisition	10,190,115	2,982,155	8,779,371
<b>Total</b>	<b>20,685,247</b>	<b>16,082,760</b>	<b>18,339,474</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 2017 & 2016

11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

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.

Fair value and fair value hierarchy

30 June 2017 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
- Derivative financial instruments	-	115,746	-	115,746
- Held for trading investments	301,583	-	-	301,583
- Available for sale investments	15,378,361	7,774	267,394	15,653,529
<b>Financial liabilities</b>				
- Derivative financial instruments	-	106,641	-	106,641
 31 December 2016 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
- Derivative financial instruments	-	189,295	-	189,295
- Available for sale investments	15,478,675	268,663	266,649	16,013,987
<b>Financial liabilities</b>				
- Derivative financial instruments	-	138,638	-	138,638

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11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Six month period ended	
	30 June 2017 (Unaudited) SAR'000	30 June 2016 (Unaudited) SAR'000
Reconciliation of movement in Level 3 (Unaudited)		
Opening balance	266,649	253,006
Total gains or losses		
- recognised in interim condensed consolidated statement of income	745	214
- recognised in other comprehensive income	-	640
<b>Closing balance</b>	<b>267,394</b>	<b>253,860</b>

There were no transfers between the fair value hierarchy levels.

The fair values of on-statement of financial position financial instruments, except for loans and advances, other investments held at amortised cost and held-to-maturity investments are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of customer deposits, debt securities in issue, cash and balances with SAMA, due from and due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market special 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 and other financial institutions.

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. The estimated fair values of loans and advances was SAR 147.1 billion at 30 June 2017 (31 December 2016: SAR 146.7 billion).

The estimated fair value of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. The estimated fair values of these investments was SAR 27.3 billion at 30 June 2017 (31 December 2016: SAR 29.1 billion).

12. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. The transactions between the Bank's operating segments are recorded as per the Bank's transfer pricing system. There are no other material items of income or expenses between the operating segments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 2017 & 2016

12. OPERATING SEGMENTS (continued)

The Group's reportable segments under IFRS 8 are as follows:

**Retail banking**

Deposits, credit and investment products for individuals and small to medium sized businesses.

**Investment banking and brokerage**

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

**Corporate banking**

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

**Treasury and investment**

Principally providing money market trading and treasury services as well as the management of the Group's investment portfolios.

**Other**

Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

The Group's total assets and liabilities at 30 June 2017 and 2016 and its total operating income, total operating expenses and net income for the six months periods then ended, by operating segments, are as follows:

30 June 2017	Investment banking and brokerage			Treasury and investment	Other	Total
SAR'000 (Unaudited)	Retail	Corporate	Corporate			
Total assets	46,281,859	866,214	101,077,631	58,870,141	11,894,335	218,990,180
Total liabilities	62,035,990	55,316	94,806,629	7,102,142	18,362,766	182,362,843
Total operating income	1,305,334	147,755	1,701,681	672,974	149,416	3,977,160
Net special commission income	1,149,165	46,096	1,207,979	365,220	130,065	2,898,525
Fee and commission income, net	158,109	99,874	489,999	6,112	(4,932)	749,162
Inter segment revenues	172,258	44,895	(299,049)	(168,228)	250,124	-
Total operating expenses	490,093	65,037	804,832	6,857	722,511	2,089,330
Depreciation of property and equipment	53,472	137	5,111	4,118	77,091	139,929
Impairment charge for credit losses, net	(28,947)	-	617,513	-	-	588,566
Reversal of impairment charge for investments	-	-	-	(14,040)	-	(14,040)
Share in earnings of associates, net	-	-	-	-	7,445	7,445
Net income (loss)	815,241	82,718	896,849	666,117	(565,650)	1,895,275
	-	-	-	-	-	-

30 June 2016

30 June 2016	Investment banking and brokerage			Treasury and investment	Other	Total
SAR'000 (Unaudited)	Retail	Corporate	Corporate			
Total assets	44,650,812	794,091	115,124,132	55,816,388	11,390,265	227,775,688
Total liabilities	60,491,782	58,226	103,200,002	11,142,366	15,485,632	190,378,008
Total operating income	1,292,394	153,441	1,473,878	592,788	501,661	4,014,162
Net special commission income	1,092,878	30,085	948,099	285,756	270,621	2,627,439
Fee and commission income, net	188,804	123,261	523,479	(1,354)	(6,578)	827,612
Inter segment revenues	34,098	26,207	(285,324)	(146,075)	371,094	-
Total operating expenses	566,533	77,448	321,154	71,864	673,099	1,710,098
Depreciation of property and equipment	51,208	32	4,037	4,311	83,944	143,532
Impairment charge for credit losses, net	50,058	-	139,866	-	-	189,924
Impairment charge for investments	-	-	-	50,000	-	50,000
Share in earnings of associates, net	-	-	-	-	15,632	15,632
Net income (loss)	725,861	75,993	1,152,724	520,924	(155,806)	2,319,696

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For the six months period ended 30 June 2017 & 2016

13. DIVIDENDS AND ZAKAT

On 27 March 2017, the shareholders in the Extra Ordinary General Assembly meeting approved the distribution of dividends to shareholders for the second half of 2016. The amount of such dividend, net of zakat amounted to SAR 900 million (SAR 0.30 per share) and the distribution date for the dividend was 10 April 2017.

The Board of Directors initially approved interim dividend of SAR 1,050 million (2016: SAR 1,050 million), which was finally ratified and announced on 20 June 2017, resulting in dividends of SAR 0.35 per share (2016: SAR 0.35 per share) to the shareholders. The interim dividends for 2016 were announced on 18 July 2016.

The change in the accounting policy for zakat (as explained in note 4) has the following impacts on the line items of statements of financial position and changes in shareholders' equity:

**As at 31 December 2016**

<u>Account</u>	Balance as previously reported as at 31 December 2016	Effect of restatement	Balance as restated at 31 December 2016
	<u>SAR 000s</u>	<u>SAR 000s</u>	<u>SAR 000s</u>
Other Liabilities	6,168,867	800,000	6,968,867
Proposed dividends (Equity)	1,700,000	(800,000)	900,000

**As at 30 June 2016**

<u>Account</u>	Balance as previously reported as at 30 June 2016	Effect of restatement	Other reclassification*	Balance as restated at 30 June 2016
	<u>SAR 000s</u>	<u>SAR 000s</u>	<u>SAR 000s</u>	<u>SAR 000s</u>
Other Liabilities	6,653,321	400,000	(342,433)	6,710,888
Retained earnings (Equity)	5,166,870	(400,000)	-	4,766,870

In addition to the changes noted in the above table, the change in accounting policy also resulted in a zakat charge to retained earnings for the six months period ended 30 June 2017 amounting to SR 440 million (six months period ended 30 June 2016 amounting to SR 400 million). Moreover, the proposed dividend as at 1 January 2016 was also restated and reduced by an amount of SR 250 million with a corresponding increase in other liabilities.

\*Negative fair value of derivatives have been reclassified from other liabilities and shown separately on the interim condensed consolidated statement of financial position, to conform with the current period presentation

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For the six months period ended 30 June 2017 & 2016

14. EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended 30 June 2017 and 2016 are calculated by dividing the net income for the period by 3,000 million outstanding shares.

15. CAPITAL ADEQUACY

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA. The Group also complies with requirements with respect to the various capital buffers which are applicable in a phased manner starting from 1 January 2016.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affects its business environment.

Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and capital adequacy ratios on a consolidated group basis, calculated under the Basel III framework, are as follows:

	30 June 2017 (Unaudited) <u>SAR Millions</u>	31 December 2016 (Audited) <u>SAR Millions</u>	30 June 2016 (Unaudited) <u>SAR Millions</u>
<b>Risk weighted assets</b>			
Credit	214,066	211,833	217,390
Operational	13,911	13,890	13,850
Market	2,036	495	1,762
Total Pillar-I Risk Weighted Assets	<u>230,013</u>	<u>226,218</u>	<u>233,002</u>
<b>Eligible capital</b>			
Tier I Capital	36,627	36,973	37,398
Tier II Capital	5,072	5,072	5,072
Total Tier I & II Capital	<u>41,699</u>	<u>42,045</u>	<u>42,470</u>
Tier I Capital Adequacy Ratio %	15.9%	16.3%	16.1%
Total Capital Adequacy Ratio %	18.1%	18.6%	18.2%

16. COMPARATIVE FIGURES

Apart from the impact as stated in note 13, certain other comparative amounts have been reclassified to conform with the current period presentation