

Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyadh Bank (the “Bank”) and its subsidiaries (collectively referred to as the “Group”) as at 30 September 2016, and the related interim condensed consolidated income statement and the interim condensed consolidated statement of comprehensive income for the three-month and nine-month period then ended, and interim condensed consolidated statements of changes in shareholders’ equity and cash flows for the nine-month period then ended and the notes from (1) to (17) which form an integral part of the interim condensed consolidated financial statements. We have neither 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 issued by the Saudi Arabian Monetary Agency (“SAMA”) and with International Accounting Standard No. 34 (“IAS 34”). 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.

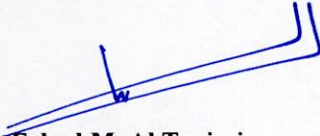
Conclusion

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 IAS 34.

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (16) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (16) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

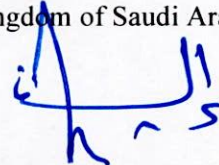
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18 Muharram 1438H
19 October 2016



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
	Notes	SAR'000	SAR'000
ASSETS			
Cash and balances with SAMA		16,934,326	20,569,929
Due from banks and other financial institutions		6,510,458	9,269,501
Investments, net	5	44,009,002	44,765,404
Loans and advances, net	6	152,631,133	145,066,191
Investment in associates		541,521	525,131
Other real estate		238,355	258,411
Property and equipment, net		1,923,209	1,894,701
Other assets		683,694	966,607
Total assets		223,471,698	223,315,875
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions		10,424,799	4,499,693
Customer deposits	7	160,821,155	167,852,133
Debt securities in issue		8,054,009	8,011,313
Other liabilities		6,523,152	6,407,624
Total liabilities		185,823,115	186,770,763
Shareholders' equity			
Share capital		30,000,000	30,000,000
Statutory reserve		2,100,471	2,100,471
Other reserves		701,816	297,467
Retained earnings		4,846,296	2,847,174
Proposed dividends		-	1,300,000
Total shareholders' equity		37,648,583	36,545,112
Total liabilities and shareholders' equity		223,471,698	223,315,875

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

	Notes	For the three months period ended 30 September		For the nine months period ended 30 September	
		2016	2015	2016	2015
		SAR'000	SAR'000	SAR'000	SAR'000
Special commission income		1,888,820	1,421,075	5,365,928	4,292,457
Special commission expense		568,275	160,029	1,417,944	456,194
Net special commission income		1,320,545	1,261,046	3,947,984	3,836,263
Fee and commission income, net		319,741	367,284	1,147,353	1,343,454
Exchange income, net		115,316	82,282	314,259	259,660
Trading (loss) /gains, net		(1,465)	12,861	15,217	30,878
Dividend income		16,301	21,735	44,983	56,484
Gains on non-trading investments, net		81,576	109,111	159,888	222,248
Other operating income	14	2,863	7,790	239,355	328,953
Total operating income, net		1,854,877	1,862,109	5,869,039	6,077,940
Salaries and employee-related expenses		422,797	390,640	1,188,704	1,179,563
Rent and premises-related expenses		76,574	72,075	236,186	221,028
Depreciation of property and equipment		76,126	69,577	219,658	205,914
Other general and administrative expenses		168,186	77,700	540,562	447,044
Impairment charge for credit losses, net		335,218	358,110	525,142	801,246
Impairment charge for investments		50,000	-	100,000	9,609
Other operating expenses		10,005	11,240	38,752	46,618
Total operating expenses, net		1,138,906	979,342	2,849,004	2,911,022
Net operating income		715,971	882,767	3,020,035	3,166,918
Share in earnings of associates, net		13,455	15,783	29,087	31,462
Net income for the period		729,426	898,550	3,049,122	3,198,380
Basic and diluted earnings per share (in SAR)	15	0.24	0.30	1.02	1.07

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2016 SAR'000	2015 SAR'000	2016 SAR'000	2015 SAR'000
Net income for the period	729,426	898,550	3,049,122	3,198,380
Other comprehensive income:				
Items that are or maybe reclassified back to consolidated income statement in subsequent periods				
- Available for sale investments				
Net change in fair value	197,153	(563,795)	462,761	(492,585)
Net amounts transferred to consolidated income statement	(25,676)	(80,937)	(58,412)	(180,650)
Other comprehensive income for the period	171,477	(644,732)	404,349	(673,235)
Total comprehensive income for the period	900,903	253,818	3,453,471	2,525,145

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

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

For the nine months period ended 30 September 2016 & 2015

	Share capital	Statutory reserve	SAR'000		Proposed dividends	Total
			Other reserves Available for sale investments	Retained earnings		
30 September 2016						
Balance at the beginning of the period	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112
Net change in fair value	-	-	462,761	-	-	462,761
Net amounts transferred to interim condensed consolidated income statement	-	-	(58,412)	-	-	(58,412)
Net income for the period	-	-	-	3,049,122	-	3,049,122
Total comprehensive income for the period	-	-	404,349	3,049,122	-	3,453,471
Final dividends paid - 2015 (note 13)	-	-	-	-	(1,300,000)	(1,300,000)
Interim dividend paid - 2016 (note 13)	-	-	-	(1,050,000)	-	(1,050,000)
	<u>30,000,000</u>	<u>2,100,471</u>	<u>701,816</u>	<u>4,846,296</u>	<u>-</u>	<u>37,648,583</u>
30 September 2015						
Balance at the beginning of the period	30,000,000	1,088,102	1,038,937	2,160,066	1,250,000	35,537,105
Net change in fair value	-	-	(492,585)	-	-	(492,585)
Net amounts transferred to interim condensed consolidated income statement	-	-	(180,650)	-	-	(180,650)
Net income for the period	-	-	-	3,198,380	-	3,198,380
Total comprehensive income for the period	-	-	(673,235)	3,198,380	-	2,525,145
Final dividends paid - 2014 (note 13)	-	-	-	-	(1,250,000)	(1,250,000)
Interim dividend paid - 2015 (note 13)	-	-	-	(1,050,000)	-	(1,050,000)
Balance at the end of the period	<u>30,000,000</u>	<u>1,088,102</u>	<u>365,702</u>	<u>4,308,446</u>	<u>-</u>	<u>35,762,250</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For the nine months period ended 30 September 2016 & 2015

		For the nine months period ended 30 September	
		2016	2015
	Note	SAR'000	SAR'000
OPERATING ACTIVITIES			
Net income for the period		3,049,122	3,198,380
Adjustments to reconcile net income for the period to net cash from (used in) operating activities:			
Accretion of discounts and amortisation of premium, net on non-trading investments, net and debt securities in issue		14,517	(68,052)
Gains on non-trading investments, net		(159,888)	(222,248)
Depreciation of property and equipment		219,658	205,914
Share in earnings of associates, net		(29,087)	(31,462)
Impairment charge for investments, net		100,000	9,609
Impairment charge for credit losses, net		525,142	801,246
		<u>3,719,464</u>	<u>3,893,387</u>
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		525,806	(762,478)
Due from banks and other financial institutions maturing after three months from date of acquisition		(426,312)	(464,590)
Loans and advances		(8,090,084)	(5,446,201)
Other real estate		20,056	152,847
Other assets		282,913	(512,969)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		5,925,106	2,869,633
Customer deposits		(7,030,978)	(3,688,498)
Other liabilities		(55,738)	(1,200,966)
Net cash used in operating activities		<u>(5,129,767)</u>	<u>(5,159,835)</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		17,875,022	19,073,670
Purchase of non-trading investments		(16,613,507)	(19,555,174)
Purchase of property and equipment, net		(248,166)	(330,117)
Net cash from (used in) investing activities		<u>1,013,349</u>	<u>(811,621)</u>
FINANCING ACTIVITIES			
Proceeds from debt securities in issue		-	4,021,351
Dividend and Zakat paid		(2,178,734)	(2,140,665)
Net cash (used in) from financing activities		<u>(2,178,734)</u>	<u>1,880,686</u>
Net decrease in cash and cash equivalents		<u>(6,295,152)</u>	<u>(4,090,770)</u>
Cash and cash equivalents at beginning of the period		21,041,852	20,773,782
Cash and cash equivalents at end of the period	10	<u>14,746,700</u>	<u>16,683,012</u>
Special commission received during the period		5,144,511	4,140,868
Special commission paid during the period		<u>1,203,858</u>	<u>506,400</u>
Supplemental non-cash information			
Net changes in fair value and transfer to interim condensed consolidated income statement		404,349	(673,235)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 2016 & 2015

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 334 branches (30 September 2015: 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 Bank's Head Office is located at the following address:

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, incorporated in the Kingdom of Saudi Arabia; 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 (with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); and c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), and are collectively referred to as "the Group".

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard (IAS) 34 – Interim Financial Reporting. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. 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 2015.

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 2015.

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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the nine months period ended 30 September 2016 & 2015

3. BASIS OF CONSOLIDATION (continued)

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 these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015 except for the adoption of the following new standard 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:

a) New Standard:

IFRS 14 - Regulatory Deferral Accounts: The aim of this Standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. Many countries have industry sectors that are subject to rate regulation, whereby governments regulate the supply and pricing of particular types of activity by private entities. This can include utilities such as gas, electricity and water. Rate regulation can have a significant impact on the timing and amount of an entity's revenue.

b) Amendments to existing Standards:

- Amendments to IFRS 10 - "Consolidated Financial Statements", and IAS 28-"Investments in Associates", - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.
- Amendments to IAS 1 - Disclosure Initiative: The amendments to IAS 1, "Presentation of Financial Statements" clarify, rather than significantly change, existing IAS 1 requirements. These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement.
- Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortization: The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- Amendments to IAS 27 - Equity Method in Separate Financial Statements: The objective of this narrow-scope project is to restore the option to use the equity method of accounting in separate financial statements.

c) Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

- IFRS 7 - "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

IAS 19 - "Employee Benefits" - amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

IAS 34 - "Interim Financial Reporting" - amendment clarifies that the required interim disclosures must be either in the interim condensed financial statements or incorporated by cross-referencing to the interim condensed financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim condensed financial statements and at the same time.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the nine months period ended 30 September 2016 & 2015

5. INVESTMENTS, NET

Investment securities are classified as follows:

	30 September 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 September 2015 (Unaudited) SAR'000
Investments:			
- Available for sale	15,975,545	15,722,465	16,318,656
- Other investments held at amortised cost	28,028,225	28,998,063	30,845,971
- Held to maturity	5,232	44,876	55,234
Total	44,009,002	44,765,404	47,219,861

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 September 2016 was SAR 2,840 million (30 September 2015: SAR 3,176 million).

Had the reclassification not occurred, the interim condensed consolidated income statement for the three and nine months period ended 30 September 2016 would have included unrealised fair value gain on such reclassified investments amounting to SAR 100 million and SAR 221 million respectively (30 September 2015: unrealised fair value loss of SAR 102 million and unrealised fair value gain of SAR 9 million).

6. LOANS AND ADVANCES, NET

Loans and advances held at amortised cost comprise the following:

	30 September 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 September 2015 (Unaudited) SAR'000
Consumer loans	37,825,528	37,902,224	37,559,173
Commercial loans and overdrafts	114,863,395	106,870,566	100,548,259
Credit cards	850,870	833,405	893,493
Performing loans and advances	153,539,793	145,606,195	139,000,925
Non-performing loans and advances	1,289,811	1,358,743	1,256,604
Gross loans and advances	154,829,604	146,964,938	140,257,529
Allowance for impairment	(2,198,471)	(1,898,747)	(1,792,863)
Total	152,631,133	145,066,191	138,464,666

7. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	30 September 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 September 2015 (Unaudited) SAR'000
Demand	69,526,829	72,139,543	84,169,746
Saving	314,603	333,618	338,364
Time	80,528,979	85,688,654	67,618,943
Other	10,450,744	9,690,318	8,993,073
Total	160,821,155	167,852,133	161,120,126

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 2016 & 2015

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 September 2016 (Unaudited)			31 December 2015 (Audited)			30 September 2015 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Held for trading:									
Special commission rate swaps	97,622	(62,948)	9,654,126	45,071	(15,052)	5,283,833	46,674	(16,742)	4,929,713
Forward foreign exchange contracts	50,512	(125,683)	29,208,703	78,572	(96,544)	38,044,211	95,904	(96,910)	42,650,703
Currency options	67,745	(67,745)	9,646,903	73,399	(73,399)	8,483,383	37,978	(37,978)	7,063,639
Commodity options	-	-	-	497	(497)	1,696	775	(775)	4,356
Held as fair value hedges:									
Special commission rate swaps	36	(723)	1,775,000	-	(1,637)	230,474	287	(65)	230,474
Total	215,915	(257,099)	50,284,732	197,539	(187,129)	52,043,597	181,618	(152,470)	54,878,885

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

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

	30 September 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 September 2015 (Unaudited) SAR'000
Letters of credit	7,274,679	9,410,329	11,115,102
Letters of guarantee	74,877,302	81,560,721	82,958,122
Acceptances	2,230,317	3,634,022	2,811,574
Irrevocable commitments to extend credit	11,425,880	11,233,086	10,904,668
Total	95,808,178	105,838,158	107,789,466

b) Others

During the period ended 30 September 2016, 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 2015.

10. CASH AND CASH EQUIVALENTS

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

	30 September 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 September 2015 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	8,662,554	11,772,351	10,761,527
Due from banks and other financial institutions maturing within three months from date of acquisition	6,084,146	9,269,501	5,921,485
Total	14,746,700	21,041,852	16,683,012

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 2016 & 2015

11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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.

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 prices for identical instruments in active markets.

Level 2: valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3: valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable. Valuations are based on Net Asset Value (NAV) per unit / share as per the statement provided by custodian for managed funds or the latest available audited financial statements for entities other than managed funds.

Fair value and fair value hierarchy

30 September 2016 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	215,915	-	215,915
Special commission rate swaps	-	97,658	-	97,658
Forward foreign exchange contracts	-	50,512	-	50,512
Currency and commodity options	-	67,745	-	67,745
Available for sale investments	15,425,636	296,007	253,902	15,975,545
Fixed rate securities	12,043,431	-	-	12,043,431
Floating rate securities	1,773,670	-	-	1,773,670
Mutual funds	680,416	296,007	-	976,423
Equities	928,119	-	253,902	1,182,021
Financial liabilities				
Derivative financial instruments	-	257,099	-	257,099
Special commission rate swaps	-	63,671	-	63,671
Forward foreign exchange contracts	-	125,683	-	125,683
Currency options	-	67,745	-	67,745
31 December 2015 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	197,539	-	197,539
Special commission rate swaps	-	45,071	-	45,071
Forward foreign exchange contracts	-	78,572	-	78,572
Currency and commodity options	-	73,896	-	73,896
Available for sale investments	14,589,397	880,062	253,006	15,722,465
Fixed rate securities	11,247,256	-	-	11,247,256
Floating rate securities	1,722,334	-	-	1,722,334
Mutual funds	556,163	880,062	-	1,436,225
Equities	1,063,644	-	253,006	1,316,650
Financial liabilities				
Derivative financial instruments	-	187,129	-	187,129
Special commission rate swaps	-	16,689	-	16,689
Forward foreign exchange contracts	-	96,544	-	96,544
Currency and Commodity options	-	73,896	-	73,896

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 2016 & 2015

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

	30 September 2016	30 September 2015
Reconciliation of movement in Level 3 (Unaudited)	SAR'000	SAR'000
Opening balance	253,006	147,714
Total gains or losses		
- recognised in interim condensed consolidated income statement	260	(2,018)
- recognised in other comprehensive income	636	50,523
Redemptions	-	(933)
Closing balance	253,902	195,286

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 which are carried at amortised cost are not significantly different from the carrying values included in the financial statements. The fair values of special commission bearing customers' deposits, debt securities in issue, 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 SAR158.2 billion at 30 September 2016 (31 December 2015: SAR 149.2 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 (respectively). The estimated fair values of these investments was SAR 27.9 billion at 30 September 2016 (31 December 2015: SAR 29.3 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 nine months period ended 30 September 2016 & 2015

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 September 2016 and 2015 and its total operating income, total operating expenses and net income for the nine months periods then ended, by operating segments, are as follows:

30 September 2016

SAR'000 (Unaudited)	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	39,102,179	85,711	114,015,636	67,209,989	3,058,183	223,471,698
Total liabilities	60,476,662	55,017	99,847,877	21,739,120	3,704,439	185,823,115
Total operating income	1,811,454	213,951	2,274,569	807,571	761,494	5,869,039
Net special commission income	1,535,348	46,009	1,542,992	299,047	524,588	3,947,984
Fee and commission income, net	256,682	167,623	727,706	(4,658)	-	1,147,353
Inter segment revenues	55,055	39,739	(417,216)	(202,420)	524,842	-
Total operating expenses	824,300	115,383	677,671	131,581	1,100,069	2,849,004
Depreciation and amortisation	72,236	-	6,628	6,449	134,345	219,658
Impairment charge for credit losses, net	120,495	-	404,647	-	-	525,142
Impairment charge for investments	-	-	-	100,000	-	100,000
Share in earnings of associates, net	-	-	-	-	29,087	29,087
Net income (loss)	987,154	98,568	1,596,898	675,990	(309,488)	3,049,122

30 September 2015

SAR'000 (Unaudited)	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	38,556,381	97,490	99,465,262	75,698,175	3,157,985	216,975,293
Total liabilities	61,427,721	51,783	98,651,484	18,021,540	3,060,515	181,213,043
Total operating income	1,946,697	270,281	2,610,155	953,114	297,693	6,077,940
Net special commission income	1,616,251	36,970	1,795,835	419,273	(32,066)	3,836,263
Fee and commission income, net	308,457	232,896	810,519	(8,418)	-	1,343,454
Inter segment revenues	142,379	34,793	(20,479)	(124,644)	(32,049)	-
Total operating expenses	1,751,151	121,046	(71,440)	33,005	1,077,260	2,911,022
Depreciation and amortisation	75,821	-	3,376	6,455	120,262	205,914
Impairment charge for credit losses, net	1,099,916	-	(298,670)	-	-	801,246
Impairment charge for investments	-	-	-	9,609	-	9,609
Share in earnings of associates, net	-	-	-	-	31,462	31,462
Net income (loss)	195,546	149,235	2,681,595	920,109	(748,105)	3,198,380

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 2016 & 2015

13. DIVIDENDS

The Board of Directors initially approved interim dividend of SAR 1,050 million (2015: SAR 1,050 million), which was finally ratified and announced on 18 July 2016, resulting in dividends of SAR 0.35 per share (2015: SAR 0.35 per share) to the shareholders. Zakat will be determined and deducted from the shareholders' dividends at year-end.

On 5 April 2016 the shareholders in the general assembly meeting had approved the distribution of final dividend. The amount of such dividend, net of zakat amounted to SAR 1,050 million (SR 0.35 per share), (30 June 2015: SAR 1,050 million, SAR 0.35 per share) and accordingly, the dividend was paid during second quarter 2016. Gross amount of final dividend is disclosed in the interim condensed consolidated statement of changes in shareholders' equity.

14. OTHER OPERATING INCOME

During the period ended 30 September 2016, the Bank disposed off land having a book value of SAR 1.4 million. This land was initially acquired in settlement of certain loans and advances.

The gain on sale of this land amounting to SAR 201 million is included in other operating income.

15. EARNINGS PER SHARE

Basic and diluted earnings per share for the three and nine months period ended 30 September 2016 and 2015 are calculated by dividing the net income for the period by 3,000 million outstanding shares.

16. 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 September 2016 (Unaudited) SAR Millions	31 December 2015 (Audited) SAR Millions	30 September 2015 (Unaudited) SAR Millions
Risk weighted assets			
Credit	216,070	211,468	206,735
Operational	13,874	13,510	13,375
Market	3,000	1,034	2,181
Total Pillar-I Risk Weighted Assets	232,944	226,012	222,291
Eligible capital			
Tier I Capital	37,649	36,545	35,762
Tier II Capital	5,072	5,072	5,072
Total Tier I & II Capital	42,721	41,617	40,834
 Tier I Capital Adequacy Ratio %	 16.2%	 16.2%	 16.1%
Total Capital Adequacy Ratio %	18.3%	18.4%	18.4%

17. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current period presentation

18. DISCLOSURES UNDER BASEL III FRAMEWORK

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