



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 June 2016, and the related interim condensed consolidated income statement and the interim condensed consolidated statement of 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 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

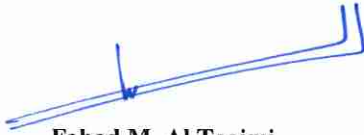
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with 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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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 June 2015 (Unaudited) SAR'000
	Note			
ASSETS				
Cash and balances with SAMA		17,460,314	20,569,929	29,104,574
Due from banks and other financial institutions		8,905,684	9,269,501	4,901,456
Investments, net	5	42,787,389	44,765,404	47,475,493
Loans and advances, net	6	154,666,879	145,066,191	137,101,576
Investment in associates		537,090	525,131	501,318
Other real estate		241,355	258,411	249,091
Property and equipment, net		1,950,283	1,894,701	1,820,002
Other assets		1,226,694	966,607	1,330,368
Total assets		227,775,688	223,315,875	222,483,878
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		11,263,964	4,499,693	4,334,508
Customer deposits	7	164,043,257	167,852,133	167,074,704
Debt securities in issue		8,017,466	8,011,313	8,010,058
Other liabilities		6,653,321	6,407,624	6,506,176
Total liabilities		189,978,008	186,770,763	185,925,446
Shareholders' equity				
Share capital		30,000,000	30,000,000	30,000,000
Statutory reserve		2,100,471	2,100,471	1,088,102
Other reserves		530,339	297,467	1,010,434
Retained earnings		5,166,870	2,847,174	4,459,896
Proposed dividends		-	1,300,000	-
Total shareholders' equity		37,797,680	36,545,112	36,558,432
Total liabilities and shareholders' equity		227,775,688	223,315,875	222,483,878

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

	Note	For the three months period ended 30 June		For the six months period ended 30 June	
		2016 SAR'000	2015 SAR'000	2016 SAR'000	2015 SAR'000
Special commission income		1,802,508	1,429,358	3,477,108	2,871,382
Special commission expense		442,393	135,876	849,669	296,165
Net special commission income		1,360,115	1,293,482	2,627,439	2,575,217
Fee and commission income, net		419,319	455,994	827,612	976,170
Exchange income, net		106,378	81,752	198,943	177,378
Trading gains, net		6,167	3,826	16,682	18,017
Dividend income		19,262	24,262	28,682	34,749
Gains on non-trading investments, net		100,674	12,585	78,312	113,137
Other operating income	14	15,073	296,125	236,492	321,163
Total operating income, net		2,026,988	2,168,026	4,014,162	4,215,831
Salaries and employee-related expenses		390,722	396,627	765,907	788,923
Rent and premises-related expenses		80,388	75,004	159,612	148,953
Depreciation of property and equipment		74,079	66,838	143,532	136,337
Other general and administrative expenses		193,266	170,839	372,376	369,344
Impairment charge for credit losses, net		85,108	315,332	189,924	443,136
Impairment charge for investments		50,000	9,609	50,000	9,609
Other operating expenses		17,578	14,547	28,747	35,378
Total operating expenses, net		891,141	1,048,796	1,710,098	1,931,680
Net operating income		1,135,847	1,119,230	2,304,064	2,284,151
Share in earnings of associates, net		10,133	9,000	15,632	15,679
Net income for the period		1,145,980	1,128,230	2,319,696	2,299,830
Basic and diluted earnings per share (in SAR)	15	0.38	0.38	0.77	0.77

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 June		For the six months period ended 30 June	
	2016 SAR'000	2015 SAR'000	2016 SAR'000	2015 SAR'000
Net income for the period	1,145,980	1,128,230	2,319,696	2,299,830
Other comprehensive income:				
Items that may be recycled back to interim condensed consolidated income statement in subsequent periods				
- Available for sale investments				
Net change in fair value	354,034	(69,782)	315,608	71,210
Net amounts transferred to interim condensed consolidated income statement	(103,229)	1,255	(82,736)	(99,713)
Other comprehensive income for the period	250,805	(68,527)	232,872	(28,503)
Total comprehensive income for the period	1,396,785	1,059,703	2,552,568	2,271,327

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 six months period ended 30 June 2016 & 2015

	SAR'000					Total
	Share capital	Statutory reserve	Other reserves Available for sale investments	Retained earnings	Proposed dividends	
30 June 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
Final dividends paid - 2015 (note 13)	-	-	-	-	(1,300,000)	(1,300,000)
Net change in fair value	-	-	315,608	-	-	315,608
Net amounts transferred to interim condensed consolidated income statement	-	-	(82,736)	-	-	(82,736)
Net income for the period	-	-	-	2,319,696	-	2,319,696
Balance at the end of the period	<u>30,000,000</u>	<u>2,100,471</u>	<u>530,339</u>	<u>5,166,870</u>	<u>-</u>	<u>37,797,680</u>
30 June 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
Final dividends paid - 2014 (note 13)	-	-	-	-	(1,250,000)	(1,250,000)
Net change in fair value	-	-	71,210	-	-	71,210
Net amounts transferred to interim condensed consolidated income statement	-	-	(99,713)	-	-	(99,713)
Net income for the period	-	-	-	2,299,830	-	2,299,830
Balance at the end of the period	<u>30,000,000</u>	<u>1,088,102</u>	<u>1,010,434</u>	<u>4,459,896</u>	<u>-</u>	<u>36,558,432</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 six months period ended 30 June 2016 & 2015

	Note	For the six months period ended 30 June	
		2016 SAR'000	2015 SAR'000
OPERATING ACTIVITIES			
Net income for the period		2,319,696	2,299,830
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		(13,098)	(48,764)
Gains on non-trading investments, net		(78,312)	(113,137)
Depreciation of property and equipment		143,532	136,337
Share in earnings of associates, net		(15,632)	(15,679)
Impairment charge for investments, net		50,000	9,609
Impairment charge for credit losses, net		189,924	443,136
		<u>2,596,110</u>	<u>2,711,332</u>
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		897,367	(908,253)
Due from banks and other financial institutions maturing after three months from date of acquisition		(126,313)	74,511
Loans and advances		(9,790,612)	(3,725,001)
Other real estate		17,056	141,711
Other assets		(260,087)	494,465
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		6,764,271	543,963
Customer deposits		(3,808,876)	2,266,080
Other liabilities		77,477	(90,836)
		<u>(3,633,607)</u>	<u>1,507,972</u>
Net cash (used in) from operating activities			
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		13,096,005	11,055,572
Purchase of non-trading investments		(10,833,882)	(11,276,811)
Purchase of property and equipment, net		(199,114)	(249,608)
		<u>2,063,009</u>	<u>(470,847)</u>
Net cash from (used in) investing activities			
FINANCING ACTIVITIES			
Proceeds from debt securities in issue		-	4,001,112
Dividend and Zakat paid		(1,131,780)	(1,097,061)
		<u>(1,131,780)</u>	<u>2,904,051</u>
Net cash (used in) from financing activities			
Net (decrease) increase in cash and cash equivalents			
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>18,339,474</u>	<u>24,714,958</u>
Special commission received during the period		<u>3,407,262</u>	<u>2,817,040</u>
Special commission paid during the period		<u>773,840</u>	<u>345,003</u>
Supplemental non-cash information			
Net changes in fair value and transfer to interim condensed consolidated income statement		<u>232,872</u>	<u>(28,503)</u>

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 six months period ended 30 June 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 June 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 six months period ended 30 June 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 six months period ended 30 June 2016 & 2015

5. INVESTMENTS, NET

Investment securities are classified as follows:

	30 June 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 June 2015 (Unaudited) SAR'000
Investments:			
- Available for sale	15,502,746	15,722,465	17,583,359
- Other investments held at amortised cost	27,272,221	28,998,063	29,828,713
- Held to maturity	12,422	44,876	63,421
Total	42,787,389	44,765,404	47,475,493

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 2016 was SAR 2,915 million (30 June 2015: SAR 3,281 million).

Had the reclassification not occurred, the interim condensed consolidated income statement for the three and six months period ended 30 June 2016 would have included unrealised fair value gain on such reclassified investments amounting to SAR 92.9 million and SAR 120.8 million respectively (30 June 2015: unrealised fair value gain of SAR 10.3 million and SAR 111.3 million).

6. LOANS AND ADVANCES, NET

Loans and advances held at amortised cost comprise the following:

	30 June 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 June 2015 (Unaudited) SAR'000
Consumer loans	37,937,266	37,902,224	38,147,302
Commercial loans and overdrafts	116,677,598	106,870,566	98,849,059
Credit cards	771,872	833,405	853,004
Performing loans and advances	155,386,736	145,606,195	137,849,365
Non-performing loans and advances	1,387,244	1,358,743	1,195,764
Gross loans and advances	156,773,980	146,964,938	139,045,129
Allowance for impairment	(2,107,101)	(1,898,747)	(1,943,553)
Total	154,666,879	145,066,191	137,101,576

7. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	30 June 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 June 2015 (Unaudited) SAR'000
Demand	72,735,523	72,139,543	93,248,118
Saving	306,120	333,618	345,796
Time	81,968,556	85,688,654	62,962,278
Other	9,033,058	9,690,318	10,518,512
Total	164,043,257	167,852,133	167,074,704

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 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 June 2016 (Unaudited)			31 December 2015 (Audited)			30 June 2015 (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
Held for trading:									
Special commission rate swaps	79,818	(40,970)	9,308,101	45,071	(15,052)	5,283,833	22,721	(4,643)	2,604,562
Forward foreign exchange contracts	164,963	(228,872)	22,555,723	78,572	(96,544)	38,044,211	140,435	(210,549)	71,802,363
Currency options	71,372	(71,372)	10,651,871	73,399	(73,399)	8,483,383	16,153	(16,153)	5,079,635
Commodity options	-	-	-	497	(497)	1,696	956	(956)	9,679
Held as fair value hedges:									
Special commission rate swaps	2,202	(1,219)	1,930,474	-	(1,637)	230,474	-	-	-
Total	318,355	(342,433)	44,446,169	197,539	(187,129)	52,043,597	180,265	(232,301)	79,496,239

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

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

	30 June 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 June 2015 (Unaudited) SAR'000
Letters of credit	7,737,162	9,410,329	11,363,151
Letters of guarantee	77,794,455	81,560,721	83,715,107
Acceptances	2,804,158	3,634,022	2,973,401
Irrevocable commitments to extend credit	10,068,485	11,233,086	13,344,503
Total	98,404,260	105,838,158	111,396,162

b) Others

During the period ended 30 June 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 same as 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 June 2016 (Unaudited) SAR'000	31 December 2015 (Audited) SAR'000	30 June 2015 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	9,560,103	11,772,351	19,926,568
Due from banks and other financial institutions maturing within three months from date of acquisition	8,779,371	9,269,501	4,788,390
Total	18,339,474	21,041,852	24,714,958

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 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 June 2016	Level 1	Level 2	Level 3	Total
SAR'000 (Unaudited)				
Financial assets				
Derivative financial instruments	-	318,355	-	318,355
Special commission rate swaps	-	82,020	-	82,020
Forward foreign exchange contracts	-	164,963	-	164,963
Currency and commodity options	-	71,372	-	71,372
Available for sale investments	14,773,727	475,159	253,860	15,502,746
Fixed rate securities	11,495,118	-	-	11,495,118
Floating rate securities	1,745,911	-	-	1,745,911
Mutual funds	558,242	475,159	-	1,033,401
Equities	974,456	-	253,860	1,228,316
Financial liabilities				
Derivative financial instruments	-	342,433	-	342,433
Special commission rate swaps	-	42,189	-	42,189
Forward foreign exchange contracts	-	228,872	-	228,872
Currency options	-	71,372	-	71,372
30 June 2015	Level 1	Level 2	Level 3	Total
SAR'000 (Unaudited)				
Financial assets				
Derivative financial instruments	-	180,265	-	180,265
Special commission rate swaps	-	22,721	-	22,721
Forward foreign exchange contracts	-	140,435	-	140,435
Currency and commodity options	-	17,109	-	17,109
Available for sale investments	16,468,566	919,529	195,264	17,583,359
Fixed rate securities	12,496,215	5,157	-	12,501,372
Floating rate securities	2,044,761	-	-	2,044,761
Mutual funds	592,120	914,372	-	1,506,492
Equities	1,335,470	-	195,264	1,530,734
Financial liabilities				
Derivative financial instruments	-	232,301	-	232,301
Special commission rate swaps	-	4,643	-	4,643
Forward foreign exchange contracts	-	210,549	-	210,549
Currency and Commodity options	-	17,109	-	17,109

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 2016 & 2015

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

	30 June 2016	30 June 2015
	SAR'000	SAR'000
Reconciliation of movement in Level 3 (Unaudited)		
Opening balance	253,006	147,714
Total gains or losses		
- recognised in interim condensed consolidated income statement	214	(2,018)
- recognised in other comprehensive income	640	50,501
Redemptions	-	(933)
Closing balance	253,860	195,264

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 costs 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 SAR 157.9 billion at 30 June 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 27.2 billion at 30 June 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 six months period ended 30 June 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 June 2016 and 2015 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 2016						
SAR'000 (Unaudited)	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	39,064,012	86,983	115,610,604	69,655,042	3,359,047	227,775,688
Total liabilities	60,829,357	57,383	102,635,180	22,675,470	3,780,618	189,978,008
Total operating income	1,272,222	153,262	1,544,276	513,180	531,222	4,014,162
Net special commission income	1,078,340	30,613	1,014,678	206,809	296,999	2,627,439
Fee and commission income, net	179,582	123,224	526,916	(2,110)	-	827,612
Inter segment revenues	55,942	26,734	(263,992)	(115,937)	297,253	-
Total operating expenses	511,481	76,693	323,171	69,788	728,965	1,710,098
Depreciation and amortisation	49,462	-	4,035	4,298	85,737	143,532
Impairment charge for credit losses, net	50,050	-	139,874	-	-	189,924
Impairment charge for investments	-	-	-	50,000	-	50,000
Share in earnings of associates, net	-	-	-	-	15,632	15,632
Net income (loss)	760,741	76,569	1,221,105	443,392	(182,111)	2,319,696

30 June 2015						
SAR'000 (Unaudited)	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	39,331,193	102,541	97,645,469	81,751,125	3,653,550	222,483,878
Total liabilities	63,200,922	51,564	102,927,061	16,041,124	3,704,775	185,925,446
Total operating income	1,311,118	196,761	1,826,612	578,168	303,172	4,215,831
Net special commission income	1,070,098	23,949	1,238,721	259,640	(17,191)	2,575,217
Fee and commission income, net	219,583	172,761	589,580	(5,754)	-	976,170
Inter segment revenues	137,331	22,608	(32,131)	(112,197)	(15,611)	-
Total operating expenses	956,463	81,094	66,284	33,960	793,879	1,931,680
Depreciation and amortisation	51,027	-	2,176	4,297	78,837	136,337
Impairment charge for credit losses, net	523,332	-	(80,115)	-	(81)	443,136
Impairment charge for investments	-	-	-	9,609	-	9,609
Share in earnings of associates, net	-	-	-	-	15,679	15,679
Net income (loss)	354,655	115,667	1,760,328	544,208	(475,028)	2,299,830

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the six months period ended 30 June 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 June 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 period ended 30 June 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 June 2016 (Unaudited) SAR Millions	31 December (Audited) SAR Millions	30 June 2015 (Unaudited) SAR Millions
Risk weighted assets			
Credit	217,390	211,468	204,919
Operational	13,850	13,510	13,324
Market	1,762	1,034	963
Total Pillar-I Risk Weighted Assets	<u>233,002</u>	<u>226,012</u>	<u>219,206</u>
Eligible capital			
Tier I Capital	37,798	36,545	36,558
Tier II Capital	5,072	5,072	5,072
Total Tier I & II Capital	<u>42,870</u>	<u>41,617</u>	<u>41,630</u>
Tier I Capital Adequacy Ratio %	16.2%	16.2%	16.7%
Total Capital Adequacy Ratio %	18.4%	18.4%	19.0%

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 prescribed time as required by SAMA. Such disclosures are not subject to review by the external auditors of the Bank.