



**Independent auditors' review report on the
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 2017, and the related interim condensed consolidated statements of income and 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 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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Muharram 28, 1439H

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2017	31 December 2016	30 September 2016
	Note	SAR'000	SAR'000
		(Unaudited)	(Audited)
			(Restated)
			(Unaudited)
			(Restated)
ASSETS			
Cash and balances with SAMA		13,313,044	21,262,177
Due from banks and other financial institutions		11,806,196	4,567,155
Positive fair value of derivatives	8	148,150	189,295
Investments, net	5	46,883,547	45,157,381
Loans and advances, net	6	142,067,876	142,909,367
Investment in associates		554,667	548,594
Other real estate		230,990	245,017
Property and equipment, net		1,785,676	1,862,349
Other assets		1,434,204	877,666
Total assets		218,224,350	217,619,001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions		8,307,224	8,836,713
Negative fair value of derivatives	8	104,829	138,638
Customer deposits	7	156,050,942	156,683,349
Debt securities in issue		8,049,269	8,018,373
Other liabilities		8,043,686	6,968,867
Total liabilities		180,555,950	180,645,940
Shareholders' equity			
Share capital		30,000,000	30,000,000
Statutory reserve		2,936,093	2,936,093
Other reserves		866,147	532,929
Retained earnings		3,866,160	2,604,039
Proposed dividends		-	900,000
Total shareholders' equity		37,668,400	36,973,061
Total liabilities and shareholders' equity		218,224,350	217,619,001

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 September		For the nine month period ended 30 September		
	2017	2016	2017	2016	
	Note	SAR'000	SAR'000	SAR'000	SAR'000
Special commission income		1,912,975	1,888,820	5,571,938	5,365,928
Special commission expense		374,297	568,275	1,134,735	1,417,944
Net special commission income		1,538,678	1,320,545	4,437,203	3,947,984
Fee and commission income, net		382,482	319,741	1,131,644	1,147,353
Exchange income, net		71,868	115,316	214,908	314,259
Trading income, net		9,889	(1,465)	13,329	15,217
Dividend income		21,119	16,301	44,338	44,983
Gains on non-trading investments, net		39,446	81,576	199,929	159,888
Other operating income		12,644	2,863	25,975	239,355
Total operating income, net		2,076,126	1,854,877	6,067,326	5,869,039
Salaries and employee-related expenses		392,536	422,797	1,190,751	1,188,704
Rent and premises-related expenses		76,900	76,574	239,776	236,186
Depreciation of property and equipment		68,634	76,126	208,563	219,658
Other general and administrative expenses		174,206	168,186	570,243	540,562
Impairment charge for credit losses, net		288,121	335,218	876,687	525,142
Impairment charge for investments		-	50,000	-	100,000
Other operating expenses		4,422	10,005	22,169	38,752
Total operating expenses, net		1,004,819	1,138,906	3,108,189	2,849,004
Net operating income		1,071,307	715,971	2,959,137	3,020,035
Share in earnings of associates, net		5,539	13,455	12,984	29,087
Net income for the period		1,076,846	729,426	2,972,121	3,049,122
Basic and diluted earnings per share (in SAR)	14	0.36	0.24	0.99	1.02

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 September		For the nine month period ended 30 September	
	2017 <u>SAR'000</u>	2016 <u>SAR'000</u>	2017 <u>SAR'000</u>	2016 <u>SAR'000</u>
Net income for the period	1,076,846	729,426	2,972,121	3,049,122
Other comprehensive income:				
Items that are or may be reclassified back to interim condensed consolidated statement of income in subsequent periods				
- Available for sale investments				
Net change in fair value	220,685	197,153	520,728	462,761
Net amounts transferred to interim condensed consolidated statement of income	(36,468)	(25,676)	(187,510)	(58,412)
Other comprehensive income for the period	184,217	171,477	333,218	404,349
Total comprehensive income for the period	1,261,063	900,903	3,305,339	3,453,471

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 nine month period ended 30 September 2017 & 2016

	SAR'000					Total
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	
30 September 2017						
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
Total comprehensive income for the period						
Net change in fair value of available for sale investments	-	-	520,728	-	-	520,728
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	(187,510)	-	-	(187,510)
Net income for the period	-	-	-	2,972,121	-	2,972,121
Total comprehensive income for the period	-	-	333,218	2,972,121	-	3,305,339
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)	-	-	-	(660,000)	-	(660,000)
Balance at the end of the period	30,000,000	2,936,093	866,147	3,866,160	-	37,668,400
30 September 2016						
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
Total comprehensive income for the period						
Net change in fair value of available for sale investments	-	-	462,761	-	-	462,761
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	(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 - 2015	-	-	-	-	(1,050,000)	(1,050,000)
Interim dividends - 2016 (note 13)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat (note 13) (Restated)	-	-	-	(600,000)	-	(600,000)
Balance at the end of the period (Restated)	30,000,000	2,100,471	701,816	4,246,296	-	37,048,583

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 nine month period
ended 30 September

	2017	2016
Note	SAR'000	SAR'000
OPERATING ACTIVITIES		
Net income for the period	2,972,121	3,049,122
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	(6,036)	14,517
Gains on non-trading investments, net	(199,929)	(159,888)
Gains on trading investments, net	(2,711)	-
Depreciation of property and equipment	208,563	219,658
Share in earnings of associates, net	(12,984)	(29,087)
Impairment charge for investments	-	100,000
Impairment charge for credit losses, net	876,687	525,142
	<u>3,835,711</u>	<u>3,719,464</u>
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA	(59,515)	525,806
Due from banks and other financial institutions maturing after three months from date of acquisition	(1,189,997)	(426,312)
Positive fair value of derivatives	41,145	(18,376)
Held for trading investments (FVIS)	(300,000)	-
Loans and advances	(35,196)	(8,090,084)
Other real estate	14,027	20,056
Other assets	(556,538)	301,289
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	(529,489)	5,925,106
Negative fair value of derivatives	(33,809)	69,970
Customer deposits	(632,407)	(7,030,978)
Other liabilities	445,592	(125,708)
Net cash from (used in) operating activities	<u>999,524</u>	<u>(5,129,767)</u>
INVESTING ACTIVITIES		
Proceeds from sales and maturities of non-trading investments	15,058,448	17,875,022
Purchase of non-trading investments	(15,904,913)	(16,613,507)
Purchase of property and equipment, net	(131,890)	(248,166)
Net cash (used in) from investing activities	<u>(978,355)</u>	<u>1,013,349</u>
FINANCING ACTIVITIES		
Dividend and Zakat paid	(1,980,773)	(2,178,734)
Net cash used in financing activities	<u>(1,980,773)</u>	<u>(2,178,734)</u>
Net decrease in cash and cash equivalents	<u>(1,959,604)</u>	<u>(6,295,152)</u>
Cash and cash equivalents at beginning of the period	16,082,760	21,041,852
Cash and cash equivalents at end of the period	10 <u>14,123,156</u>	<u>14,746,700</u>
Special commission received during the period	5,473,360	5,144,511
Special commission paid during the period	1,198,413	1,203,858
Supplemental non-cash information		
Net changes in fair value and transfers to interim condensed consolidated statement of income	<u>333,218</u>	<u>404,349</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 nine months period ended 30 September 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 September 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; d) Curzon Street Properties Limited incorporated in the Isle of Man; and 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 September 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 nine months period ended 30 September 2017 & 2016**3. BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements 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 nine months period ended 30 September 2017 & 2016

5. INVESTMENTS, NET

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
- Held for Trading (FVIS)	302,711	-	-
- Available for sale, net	16,096,859	16,013,987	15,975,545
- Other investments held at amortised cost, net	30,483,932	29,141,896	28,028,225
- Held to maturity, net	45	1,498	5,232
Total	46,883,547	45,157,381	44,009,002

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 2017 was SAR 2,517 million (30 September 2016 was SAR 2,840 million).

Had the reclassification not occurred, the interim condensed consolidated income statement for the nine months period ended 30 September 2017 would have included unrealised fair value gain on such reclassified investments amounting to SAR 186.5 million (Nine months period ended 30 September 2016: unrealised fair value gain of SAR 220.9 million).

6. LOANS AND ADVANCES, NET

Loans and advances held at amortised cost comprise the following:

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Consumer loans	39,893,502	38,035,114	37,825,528
Commercial loans and overdrafts	101,664,593	105,520,275	114,863,395
Credit cards	782,918	773,471	850,870
Performing loans and advances	142,341,013	144,328,860	153,539,793
Non-performing loans and advances	1,399,055	1,158,022	1,289,811
Gross loans and advances	143,740,068	145,486,882	154,829,604
Allowance for credit impairment	(1,672,192)	(2,577,515)	(2,198,471)
Total	142,067,876	142,909,367	152,631,133

7. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Current	74,027,027	77,846,981	69,526,829
Saving	347,508	324,982	314,603
Time	70,597,828	67,811,458	80,528,979
Others	11,078,579	10,699,928	10,450,744
Total	156,050,942	156,683,349	160,821,155

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 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 September 2017 (Unaudited)			31 December 2016 (Audited)			30 September 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
Held for trading:									
Special commission rate swaps	93,487	(61,459)	9,314,333	57,693	(26,803)	7,992,359	97,622	(62,948)	9,654,126
Forward foreign exchange contracts	49,664	(38,656)	27,709,439	91,894	(71,763)	25,510,910	50,512	(125,683)	29,208,703
Currency options	4,713	(4,714)	4,486,865	39,708	(39,708)	8,376,319	67,745	(67,745)	9,646,903
Held as fair value hedges:									
Special commission rate swaps	286	-	187,510	-	(364)	75,000	36	(723)	1,775,000
Total	148,150	(104,829)	41,698,147	189,295	(138,638)	41,954,588	215,915	(257,099)	50,284,732

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

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

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Letters of credit	6,622,103	7,620,798	7,274,679
Letters of guarantee	65,473,329	71,849,338	74,877,302
Acceptances	1,497,011	2,119,841	2,230,317
Irrevocable commitments to extend credit	11,250,883	12,140,732	11,425,880
Total	84,843,326	93,730,709	95,808,178

b) Others

During the period ended 30 September 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 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	5,091,957	13,100,605	8,662,554
Due from banks and other financial institutions maturing within three months from date of acquisition	9,031,199	2,982,155	6,084,146
Total	14,123,156	16,082,760	14,746,700

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

Following are the financial instruments carried at fair value in the interim condensed consolidated financial statements.

Fair value and fair value hierarchy

30 September 2017 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
- Derivative financial instruments	-	148,150	-	148,150
- Held for trading investments	302,711	-	-	302,711
- Available for sale investments	15,827,519	1,593	267,747	16,096,859
Financial liabilities				
- Derivative financial instruments	-	104,829	-	104,829
31 December 2016 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
- Derivative financial instruments	-	189,295	-	189,295
- Available for sale investments	15,478,675	268,663	266,649	16,013,987
Financial liabilities				
- Derivative financial instruments	-	138,638	-	138,638

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the nine months period ended 30 September 2017 & 2016

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

	Nine month period ended	
	30 September 2017 (Unaudited) SAR'000	30 September 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	1,098	297
- recognised in other comprehensive income	-	599
Closing balance	267,747	253,902

There were no transfers between the fair value hierarchy levels during the current or prior period.

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 interim condensed consolidated 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 146.2 billion at 30 September 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 30.8 billion at 30 September 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 interim condensed 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 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 September 2017 and 2016 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 2017	Investment banking and brokerage		Corporate	Treasury and investment	Other	Total
SAR'000 (Unaudited)	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	47,401,765	890,054	100,271,660	58,137,998	11,522,873	218,224,350
Total liabilities	63,348,547	57,871	90,223,470	9,496,990	17,429,072	180,555,950
Total operating income, net of which	1,992,164	224,820	2,625,760	990,821	233,761	6,067,326
- Net special commission income	1,746,631	70,076	1,879,808	537,491	203,197	4,437,203
- Fee and commission income, net	245,884	150,849	740,134	6,760	(11,983)	1,131,644
Inter segment revenues	258,094	68,875	(425,009)	(284,649)	382,689	-
Total operating expenses, net of which	735,095	98,949	1,196,055	16,214	1,061,876	3,108,189
- Depreciation of property and equipment	79,928	102	7,784	5,877	114,872	208,563
- Impairment charge for credit losses, net	(42,033)	-	918,720	-	-	876,687
- Impairment charge for investments	-	-	-	-	-	-
Share in earnings of associates, net	-	-	-	-	12,984	12,984
Net income (loss)	1,257,069	125,871	1,429,705	974,607	(815,131)	2,972,121

30 September 2016	Investment banking and brokerage		Corporate	Treasury and investment	Other	Total
SAR'000 (Unaudited)	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	44,646,770	796,051	113,999,244	52,992,399	11,037,234	223,471,698
Total liabilities	59,451,393	55,868	102,222,889	8,996,243	15,696,722	186,423,115
Total operating income, net of which	1,834,047	214,165	2,152,154	953,594	715,079	5,869,039
- Net special commission income	1,548,485	45,096	1,428,522	444,622	481,259	3,947,984
- Fee and commission income, net	274,348	167,745	714,458	(3,942)	(5,256)	1,147,353
Inter segment revenues	17,293	38,827	(468,043)	(233,816)	645,739	-
Total operating expenses, net of which	908,111	116,576	675,594	133,666	1,015,057	2,849,004
- Depreciation of property and equipment	77,395	50	6,631	6,468	129,114	219,658
- Impairment charge for credit losses, net	122,820	-	402,322	-	-	525,142
- Impairment charge for investments	-	-	-	100,000	-	100,000
Share in earnings of associates, net	-	-	-	-	29,087	29,087
Net income (loss)	925,936	97,589	1,476,560	819,928	(270,891)	3,049,122

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 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 for the first half of 2017, which was finally ratified and announced on 20 June 2017, resulting in dividends of SAR 0.35 per share (2016: SAR 1,050 million, at SAR 0.35 per share 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>(Audited)</u> <u>Account</u>	Balance as previously reported as at 31 December 2016 <u>SAR 000s</u>	Effect of restatement <u>SAR 000s</u>	Balance as restated at 31 December 2016 <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 September 2016

<u>(Unaudited)</u> <u>Account</u>	Balance as previously reported as at 30 September 2016 <u>SAR 000s</u>	Effect of restatement <u>SAR 000s</u>	Other reclassification* <u>SAR 000s</u>	Balance as restated at 30 September 2016 <u>SAR 000s</u>
Other Liabilities	6,523,152	600,000	(257,099)	6,866,053
Retained earnings (Equity)	4,846,296	(600,000)	-	4,246,296

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 nine months period ended 30 September 2017 amounting to SR 660 million (nine months period ended 30 September 2016 amounting to SR 600 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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months period ended 30 September 2017 & 2016

14. BASIC & DILUTED EARNINGS PER SHARE

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

15. CAPITAL ADEQUACY

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

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 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. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	30 September 2017 (Unaudited) SAR Millions	31 December 2016 (Audited) SAR Millions	30 September 2016 (Unaudited) SAR Millions
Risk weighted assets			
Credit	212,327	211,833	216,070
Operational	14,018	13,890	13,874
Market	1,702	495	3,000
Total Pillar-I Risk Weighted Assets	<u>228,047</u>	<u>226,218</u>	<u>232,944</u>
Eligible capital			
Tier I Capital	37,668	36,973	37,049
Tier II Capital	5,072	5,072	5,072
Total Tier I & II Capital	<u>42,740</u>	<u>42,045</u>	<u>42,121</u>
Tier I Capital Adequacy Ratio %	16.5%	16.3%	15.9%
Total Capital Adequacy Ratio %	18.7%	18.6%	18.1%

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