

**AL RAJHI BANKING AND INVESTMENT
CORPORATION**
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED 30 JUNE 2017**



KPMG Al Fozan & Partners
Certified Public Accountants



Report on Review of Interim Condensed Consolidated Financial Statements

To: The Shareholders of
Al Rajhi Banking and Investment Corporation
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **Al Rajhi Banking and Investment Corporation** (“the Bank”) and its subsidiaries (collectively referred to as “the Group”) as at 30 June 2017, and the interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended, and the interim consolidated statements of changes in shareholders’ equity and cash flows for the six-month period then ended, and other 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’s (“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”, as endorsed in the Kingdom of Saudi Arabia. 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 International Standards on Auditing, as 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’s guidance on accounting for zakat and tax.



KPMG Al Fozan & Partners
Certified Public Accountants



Report on Review of Interim Condensed Consolidated Financial Statements (continued)

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note (13) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (13) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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(July 26, 2017)



AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June	31 December	30 June
		2017	2016	2016
		SAR'000	SAR'000	SAR'000
	Notes	(Unaudited)	(Audited)	(Unaudited)
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks		46,423,504	42,149,905	34,212,948
Due from banks and other financial institutions		21,911,187	26,578,525	24,893,746
Investments	3	31,578,033	34,032,879	35,922,074
Financing, net	4	232,796,743	224,994,124	224,523,051
Investment properties, net		1,322,437	1,330,868	1,339,299
Property and equipment, net		7,127,044	6,485,162	5,942,600
Other assets, net		4,438,279	4,140,354	4,547,112
TOTAL ASSETS		345,597,227	339,711,817	331,380,830
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,194,779	8,916,970	3,693,125
Customers' deposits	5	285,389,825	272,593,136	272,650,053
Other liabilities		5,407,130	6,254,839	5,989,296
Total liabilities		291,991,734	287,764,945	282,332,474
Shareholders' equity				
Share capital	11	16,250,000	16,250,000	16,250,000
Statutory reserve		16,250,000	16,250,000	16,250,000
Other reserves	7	4,562,933	3,873,362	3,812,856
Retained earnings		16,542,560	12,236,010	12,735,500
Proposed gross dividends and Zakat		-	3,337,500	-
Total shareholders' equity		53,605,493	51,946,872	49,048,356
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		345,597,227	339,711,817	331,380,830

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Notes	For the three-month period ended		For the six-month period ended	
		30 June		30 June	
		2017	2016	2017	2016
		SAR'000	SAR'000	SAR'000	SAR'000
INCOME					
Gross financing and investment income		3,096,809	2,890,907	6,121,288	5,590,977
Return on customers', banks' and financial institutions' time investments		(142,387)	(110,362)	(281,129)	(203,599)
Net financing and investment income		2,954,422	2,780,545	5,840,159	5,387,378
Fee from banking services, net		642,331	846,861	1,303,496	1,677,266
Exchange income, net		212,191	248,133	422,756	491,731
Other operating income, net		68,015	48,122	163,633	94,836
Total operating income		3,876,959	3,923,661	7,730,044	7,651,211
EXPENSES					
Salaries and employees related benefits		722,855	754,957	1,452,681	1,429,734
Rent and premises related expenses		75,406	70,506	153,007	131,803
Depreciation and amortization		111,105	106,370	220,816	209,363
Other general and administrative expenses		380,653	347,897	723,293	681,626
Impairment charge for financing, net		405,288	555,284	777,697	1,092,770
Impairment charge for available-for-sale investments		-	36,715	-	36,715
Total operating expenses		1,695,307	1,871,729	3,327,494	3,582,011
Net income for the period		2,181,652	2,051,932	4,402,550	4,069,200
Weighted average number of share outstanding	11	1,625,000	1,625,000	1,625,000	1,625,000
Basic and diluted earnings per share (SAR)	12	1.34	1.26	2.71	2.50

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000
Net income for the period	2,181,652	2,051,932	4,402,550	4,069,200
<i>Other comprehensive income</i>				
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods</i>				
- Available-for-sale investments:				
- Net change in fair value	(7,535)	19,393	(47,277)	(38,294)
- Net amounts transferred to consolidated statement of income	(670)	40,809	(50,003)	43,538
- Exchange difference on translation of foreign operations	32,680	9,961	42,325	37,443
Total comprehensive income for the period	2,206,127	2,122,095	4,347,595	4,111,887

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




AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Proposed gross dividends and Zakat SAR'000	Total SAR'000
For the six-month period ended 30 June 2017							
Balance at 1 January 2017 (audited)		16,250,000	16,250,000	3,873,362	12,236,010	3,337,500	51,946,872
Transfer to other reserves	7	-	-	900,000	-	(900,000)	-
Dividends paid for the second half of 2016	14	-	-	-	-	(2,437,500)	(2,437,500)
Net change in fair value of available for sale investments		-	-	(47,277)	-	-	(47,277)
Net amounts transferred to consolidated statement of income		-	-	(50,003)	-	-	(50,003)
Net movement in foreign currency translation reserve		-	-	42,325	-	-	42,325
Net loss recognized directly in equity		-	-	(54,955)	-	-	(54,955)
Net income for the period		-	-	(54,955)	4,402,550	-	4,402,550
Total comprehensive income for the period		-	-	(54,955)	4,402,550	-	4,347,595
Zakat payable transferred to other liability		-	-	-	(96,000)	-	(96,000)
Zakat paid		-	-	(155,474)	-	-	(155,474)
Balance at the end of the period (unaudited)		16,250,000	16,250,000	4,562,933	16,542,560	-	53,605,493
For the six-month period ended 30 June 2016							
Balance at 1 January 2016 (audited)		16,250,000	16,250,000	2,997,754	8,666,300	2,475,000	46,639,054
Transfer to other reserves	7	-	-	850,000	-	(850,000)	-
Dividends paid for the second half of 2015	14	-	-	-	-	(1,625,000)	(1,625,000)
Net change in fair value of available for sale investments		-	-	(38,294)	-	-	(38,294)
Net amounts transferred to consolidated statement of income		-	-	43,538	-	-	43,538
Net movement in foreign currency translation reserve		-	-	37,443	-	-	37,443
Net loss recognized directly in equity		-	-	42,687	-	-	42,687
Net income for the period		-	-	-	4,069,200	-	4,069,200
Total comprehensive income for the period		-	-	42,687	4,069,200	-	4,111,887
Zakat paid		-	-	(77,585)	-	-	(77,585)
Balance at the end of the period (unaudited)		16,250,000	16,250,000	3,812,856	12,735,500	-	49,048,356

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six-month period ended 30	
	June	
Notes	2017 SAR'000	2016 SAR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	4,402,550	4,069,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on investments held at fair value through statement of income (FVSI)	(6,677)	(5,465)
Depreciation and amortization of property and equipment	220,816	209,363
Depreciation of investment properties	8,431	-
Gain on sale of property and equipment	(68)	-
Impairment charge for financing, net	777,697	1,092,770
Impairment charge for available-for-sale investments		36,715
Share of profit in an associate	(13,904))2,760(
Net (increase) / decrease in operating assets		
Statutory deposit with SAMA and central banks	(127,151))443,366(
Due from banks and other financial institutions	1,793,218	5,984,000
Financing	(8,580,316)	(15,397,953)
Investments held as FVSI	-	1,015,443
Other assets, net	(255,600)	121,544
Net increase / (decrease) in operating liabilities		
Due to banks and other financial institutions	(7,722,191))865,099(
Customers' deposits	12,796,689	14,828,412
Other liabilities	(960,358)	(623,433)
Net cash provided by operating activities	<u>2,333,136</u>	<u>10,019,371</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(862,961))562,331(
Purchase of available -for-sale investments	(62,758)	(875,333)
Proceeds from sale and maturity of investments recorded at amortized cost	61,039,978	74,936,711
Purchase of investments recorded at amortized cost	(58,599,073)	(71,145,277)
Proceeds from sale of property and equipment	331	-
Net cash provided by investing activities	<u>1,515,517</u>	<u>2,353,770</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	14 (2,420,851))1,613,000(
Zakat paid	(155,474))77,585(
Net cash used in financing activities	<u>(2,576,325)</u>	<u>(1,690,585)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>1,272,328</u>	<u>10,682,556</u>
Cash and cash equivalents at beginning of the period	<u>32,683,985</u>	<u>12,382,480</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8 <u>33,956,313</u>	<u>23,065,036</u>
Gross financing and investment income	6,096,825	5,406,265
Return on customers', banks' and financial institutions' time investments	(297,458)	(185,187)
Non-cash transactions:		
Net change in fair value less transferred to interim condensed consolidated statement of income from available-for-sale investments	(97,279)	5,244

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017**

1. GENERAL

Al Rajhi Banking and Investment Corporation (the "Bank"), a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qada 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawwal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
Olaya Street
P.O. Box 28
Riyadh 11411
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-laws, the Banking Control Law and the Council of Ministers Resolution referred to above. The Bank is engaged in banking and investment activities for its own account and on behalf of others inside and outside the Kingdom of Saudi Arabia through network branches. The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as the "Group") in which it owns all or the majority of their shares (see note 2. III).

SHARI'A AUTHORITY

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Bank has established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PREPARATION

During 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments 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 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 quarter ended 30 June 2017 have been prepared using the IAS 34 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 2.IV below).

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) (CONTINUED)**
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, liabilities and 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 consolidated financial statements as of and for the year ended 31 December 2016, except for the change in the accounting policy in relation to SAMA guidance for the accounting of zakat and tax as mentioned above, which is effective 1 January 2017. The change in accounting policy has had no significant financial impact on the consolidated financial statements of the Group.

The interim condensed consolidated financial statements are expressed in Saudi Riyals (SAR) and are rounded off to the nearest thousand.

II. BASIS OF CONSOLIDATION

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the interim condensed consolidated financial statements of the subsidiaries, where necessary, to align with the Bank's interim condensed consolidated financial statements.

III. SUBSIDIARIES

Subsidiaries are investees controlled by the Group. The Group controls an investee when, it is exposed, or has a right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Group has less than a majority of the voting or similar rights of an investee entity, it considers relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other voters of the investee entity
- Rights arising from other contractual arrangements
- The Group's current and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control.

Subsidiaries are consolidated from the date on which the control is transferred to the Bank and are ceased to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period are included in the interim statements of comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

AL RAJHI BANKING AND INVESTMENT CORPORATION
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as “the Group”). As at 30 June, the following subsidiaries were included in the interim condensed consolidated financial statements:

Name of subsidiaries	Shareholding %		
	2017	2016	
Al Rajhi Capital Company – KSA	100%	100%	A limited liability company registered in Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Development Company - KSA	100%	100%	A limited liability company registered in Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	100%	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.
Al Rajhi Takaful Agency Company – KSA	99%	99%	A limited liability company registered in Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative insurance company.
Al Rajhi Company for management services – KSA	100%	100%	A limited liability company registered in Kingdom of Saudi Arabia to provide recruitment services.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) (CONTINUED)**
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Since the subsidiaries are wholly or substantially owned by the Bank, the non-controlling interest is insignificant and therefore not disclosed. All the above-mentioned subsidiaries have been consolidated.

IV. ACCOUNTING POLICIES

The accounting policies used in the preparation of these 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 now recognize a liability for zakat on a quarterly basis. 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 as accounted for on a payment basis. Consistent with previous periods, zakat and income tax continues to be charged to retained earnings.

The above change in accounting policy did not have material impact on interim condensed consolidated financial statements for any of the year/period presented and therefore, corresponding figures have not been restated.

b) Amendments to existing standards:

- Amendments to IASs - Disclosure Initiative” applicable from 1 January 2017.
- Amendments to IAS 12 - “Recognition of Deferred Tax Assets for Unrealized Losses” applicable from 1 January 2017.
- Amendments to IAS 7 - “Statement of Cash Flows”, which is applicable for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

AL RAJHI BANKING AND INVESTMENT CORPORATION
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

3. INVESTMENTS

Investments comprise the following:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Investment in an associate*	103,184	89,280	78,278
Investments held at amortized cost			
Murabaha with SAMA	25,449,415	30,451,217	32,382,454
Sukuk	4,661,792	2,100,895	1,778,677
Total investments held at amortized cost	30,111,207	32,552,112	34,161,131
Investments held at fair value through statement of income (FVSI)			
Mutual funds	121,949	115,272	111,125
Available-for-sale investments			
Equity investments	667,141	851,169	608,491
Mutual funds	574,552	425,046	963,049
Total available-for-sale investments	1,241,693	1,276,215	1,571,540
Investments	31,578,033	34,032,879	35,922,074

***Investment in an associate**

The Bank owns 22.5% (31 December 2016 and 30 June 2016: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

4. FINANCING, NET

Net financing comprises the following:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Held at amortized cost			
Corporate Mutajara	50,174,144	44,884,996	46,664,041
Installment sales	170,440,332	168,105,163	165,160,994
Murabaha	15,664,378	15,294,878	15,453,536
Credit cards	407,108	474,187	366,352
Performing financing	236,685,962	228,759,224	227,644,923
Non-performing financing	1,795,839	2,867,601	3,291,209
Gross financing	238,481,801	231,626,825	230,936,132
Provision for financing impairment	(5,685,058)	(6,632,701)	(6,413,081)
Financing, net	232,796,743	224,994,124	224,523,051

AL RAJHI BANKING AND INVESTMENT CORPORATION
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

5. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Demand deposits	250,818,217	245,707,815	248,864,387
Customers' time investments	28,931,980	21,645,586	18,421,579
Other customer accounts	5,639,628	5,239,735	5,364,087
Customers' Deposits	285,389,825	272,593,136	272,650,053

6. COMMITMENTS AND CONTINGENCIES

Commitment and contingencies are as following:

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Letters of credit	812,013	1,042,924	1,122,678
Acceptances	269,819	708,989	710,739
Letters of guarantee	5,204,002	5,264,324	5,521,204
Irrevocable commitments to extend credit	5,955,204	5,644,159	3,352,308
Commitments and contingencies	12,241,038	12,660,396	10,706,929

7. OTHER RESERVES

This includes the reserve that is created by the Bank for the difference between the Bank's Zakat calculation and the General Authority for Zakat and Tax (GAZT) zakat's assessment. Zakat calculated by the Bank and retained in other reserves until such time that the final amount of Zakat payable can be determined, at which time, the amount of Zakat payable is transferred from other reserves to other liabilities.

Further, this also includes reserve for employee share plan, whereby the Bank grants its shares to certain eligible employees. The exercise price of the stock option is the market value of these shares at the date of granting the program to these employees. The condition for granting these options is the completion of two years of employment with the Bank. Exercising these stock options by the employees is subject to fulfillment of certain requirements for profitability and growth in the Bank. The Bank has no legal or expected commitment to repurchase or settle these options in cash.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

8. CASH AND CASH EQUIVALENTS

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

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Cash in hand	12,874,321	8,335,452	14,476,141
Due from banks and other financial institutions maturing within 90 days from the date of purchase	5,803,405	8,677,525	6,727,746
Balances with SAMA and other central banks (current accounts)	364,141	489,957	421,209
Mutajara with SAMA	14,914,446	15,181,051	1,439,940
Cash and cash equivalents	33,956,313	32,683,985	23,065,036

9. OPERATING SEGMENTS

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Bank is organized into the following four main businesses segments:

Retail:	Includes individual customers' deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services and remittance business.
Corporate:	Includes deposits of high net worth individuals, credit facilities, and debit current accounts (overdrafts) of corporate customers.
Treasury:	Includes treasury services, Murabaha with SAMA, deposits and international Mutajara portfolio.
Investment services and brokerage:	Includes investments of individuals and corporate in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

The Bank carries out its activities principally in the Kingdom of Saudi Arabia. As of 30 June 2017, the Bank has five subsidiaries (2016: five subsidiaries), of which one operates outside the Kingdom of Saudi Arabia, additional to overseas branches which operate in Jordan and Kuwait.

The total assets, liabilities, commitments, contingencies and results of operations of these subsidiaries are not significant to the Bank's interim condensed consolidated financial statements as a whole.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) (CONTINUED)**
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

9. OPERATING SEGMENTS (CONTINUED)

The Bank's total assets and liabilities as at 30 June 2017 and 2016 together with the total operating income and expenses, and net income for the six-month periods then ended, for each business segment, are analyzed as follows:

30 June 2017(Unaudited)	Retail SAR'000	Corporate SAR'000	Treasury SAR'000	Investment services and brokerage SAR'000	Total SAR'000
Total assets	184,109,452	66,196,516	92,899,107	2,392,152	345,597,227
Total liabilities	246,445,760	41,371,949	4,048,229	125,796	291,991,734
Financing and investments income from external customers	3,958,272	1,367,469	785,388	10,159	6,121,288
Inter-segment operating income / (expense)	805,307	(396,003)	(409,304)	-	-
Gross financing and investments income	4,763,579	971,466	376,084	10,159	6,121,288
Return on customers', banks' and financial institutions' time investments	(32,988)	(132,461)	(115,680)	-	(281,129)
Net financing and investments income	4,730,591	839,005	260,404	10,159	5,840,159
Fee from banking services, net	789,024	289,380	19,457	205,635	1,303,496
Exchange income, net	-	-	422,756	-	422,756
Other operation income	86,118	-	73,828	3,687	163,633
Total operating income	5,605,733	1,128,385	776,445	219,481	7,730,044
Depreciation	(214,849)	(1,304)	(1,680)	(2,983)	(220,816)
Impairment charge for financing and other	(795,085)	17,626	(238)	-	(777,697)
Other operating expenses	(2,040,598)	(186,214)	(37,972)	(64,197)	(2,328,981)
Total operating expenses	(3,050,532)	(169,892)	(39,890)	(67,180)	(3,327,494)
Net income for the period	2,555,201	958,493	736,555	152,301	4,402,550

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) (CONTINUED)**
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

9. OPERATING SEGMENTS (CONTINUED)

30 June 2016 (Unaudited)	Retail SAR'000	Corporate SAR'000	Treasury SAR'000	Investment services and brokerage SAR'000	Total SAR'000
Total assets	176,911,067	64,377,054	87,147,325	2,945,384	331,380,830
Total liabilities	245,363,598	29,506,216	6,521,280	941,380	282,332,474
Financing and investments income from external customers	3,961,195	1,075,730	542,595	11,457	5,590,977
Inter-segment operating income/ (expense)	556,270	(386,874)	(169,396)	-	-
Gross financing and investments income	4,517,465	688,856	373,199	11,457	5,590,977
Return on customers', banks' and financial institutions' time investments	(44,541)	(159,058)	-	-	(203,599)
Net financing and investments income	4,472,924	529,798	373,199	11,457	5,387,378
Fee from banking services, net	1,123,692	266,590	17,854	269,130	1,677,266
Exchange income, net	-	-	491,731	-	491,731
Other operating income, net	8,100	715	37,784	48,237	94,836
Total operating income	5,604,716	797,103	920,568	328,824	7,651,211
Depreciation and amortization	(188,687)	(7,559)	(2,746)	(10,371)	(209,363)
Impairment charge for financing, net	(553,507)	(539,263)	-	-	(1,092,770)
Impairment charge for available- for-sale investment	-	-	(36,715)	-	(36,715)
Other operating expenses	(1,961,917)	(160,264)	(37,127)	(83,855)	(2,243,163)
Total operating expenses	(2,704,111)	(707,086)	(76,588)	(94,226)	(3,582,011)
Net income for the period	2,900,605	90,017	843,980	234,598	4,069,200

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

10. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or additions).

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.

Level 3: valuation techniques for which any significant input is not based on observable market data.

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

Fair values of financial assets and financial liabilities are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

30 June 2017 (Unaudited)	(SAR'000)				
	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets measured at fair value:					
Investments held at FVSI	121,949	-	121,949	-	121,949
Available-for- sale investments	1,241,693	643,673	574,552	23,468	1,241,693
Financial assets not measured at fair value:					
Due from banks and other financial institutions	21,911,187	-	-	21,826,743	21,826,743
Investments held at amortized cost:					
- Murabaha with SAMA	25,449,415	-	-	25,457,426	25,457,426
- Sukuk	4,661,792	-	-	4,634,889	4,634,889
Gross Financing	238,481,801	-	-	248,733,552	248,733,552
Total	291,867,837	643,673	696,501	300,676,078	302,016,252
<u>Financial liabilities</u>					
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	1,194,779	-	-	1,194,778	1,194,778
Customers' deposits	285,389,825	-	-	285,392,141	285,392,141
Total	286,584,604	-	-	286,586,919	286,586,919

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

10. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2016 (Audited)	(SAR'000)				
	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets measured at fair value:					
Financial assets at FVSI	115,272	-	115,272	-	115,272
Available-for- sale investments	1,276,215	827,732	425,046	23,437	1,276,215
Financial assets not measured at fair value:					
Due from banks and other financial institutions	26,578,525	-	-	26,460,455	26,460,455
Investments held at amortized cost:					
- Murabaha with SAMA	30,451,217	-	-	30,493,097	30,493,097
- Sukuk	2,100,895	-	-	2,115,057	2,115,057
Gross Financing	231,626,825	-	-	240,304,256	240,304,256
Total	292,148,949	827,732	540,318	299,396,302	300,764,352
<u>Financial liabilities</u>					
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	8,916,970	-	-	8,916,640	8,916,640
Customers' deposits	272,593,136	-	-	272,597,959	272,597,959
Total	281,510,106	-	-	281,514,599	281,514,599

FVSI and Available-for-sale investments classified as level 2 include mutual funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the date of statement of interim condensed consolidated statement of financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant SIBOR. Investments held at amortized cost, due to / from banks and other financial institution have been valued using the actual cash flows discounted at relevant SIBOR / SAMA Murabaha rates.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value commonly referred to as 'day one profit and loss' is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the statement of income without reversal of deferred day one profits and losses.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

10. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Sensitivity analysis

The effect on the Bank's investments having fair value hierarchy of level 2 and level 3 due to reasonable possible change in prices, with all other variables held constant is as follows:

Market Indices	30 June 2017 (Unaudited)		31 December 2015 (Audited)	
	Change in Equity price %	Effect in SAR Million	Change in Equity price %	Effect in SAR Million
Equity	+ /- 10	+/-2.35	+ /- 10	+ /- 2.34
Mutual funds	+ /- 10	+/-69.65	+ /- 10	+ /- 54.03

11. SHARE CAPITAL

The authorized issued and fully paid share capital of the Bank consists of 1,625 million shares of SAR 10 each (31 December 2016: 1,625 million shares; 30 June 2016: 1,625 million shares).

12. EARNINGS PER SHARE

Basic and diluted earnings per share for the three-month and six-month periods ended 30 June 2017 and 2016 have been calculated by dividing the net income for the period by the weighted average number of shares outstanding at each period end.

13. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risks as shown in the following table:

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2017

13. CAPITAL ADEQUACY (CONTINUED)

	30 June 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 June 2016 (Unaudited) SAR'000
Credit risk weighted assets	223,855,651	221,810,142	219,931,604
Operational risk weighted assets	25,067,746	25,067,746	23,808,192
Market risk weighted assets	5,934,209	2,096,868	3,771,632
Total Pillar I - risk weighted assets	<u>254,857,606</u>	<u>248,974,756</u>	<u>247,511,428</u>
Tier I capital	53,605,493	51,946,872	49,048,356
Tier II capital	2,798,197	2,772,627	2,749,144
Total tier I & II capital	<u>56,403,690</u>	<u>54,719,499</u>	<u>51,797,500</u>
Capital Adequacy Ratio %			
Tier I ratio	21.03%	20.86%	19.82%
Tier I + II ratio	22.13%	21.98%	20.93%

14. DIVIDENDS PAID

On 12 July 2017, the distribution of dividends to shareholders was approved for the first half of the year ending 31 December 2017, amounting to SAR 2,437.5 million as SAR 1.5 per share.

The Extraordinary General Assembly Meeting held on 20 Jumada' II 1438H (corresponding to 19 March 2017), approved the distribution of dividends to shareholders for the second half of the year ended 31 December 2016, amounting to SAR 2,437.5 million as SAR 1.5 per share net of Zakat deduction on shareholders amounting to SAR 900 million.

The Extra Ordinary General assembly Meeting held on 19 Jumada' II, 1437H (corresponding to 28 March 2016), approved the distribution of dividends to shareholders for the second half of the year ended 31 December 2015, amounting to SAR 1,625 million as SAR 1 per share net of Zakat deduction on shareholders amounting to SAR 850 million.

15. COMPARATIVE FIGURES

Certain prior period amounts have been reclassified to conform to the current period presentation.

16. APPROVAL OF THE BOARD OF DIRECTORS

The Interim condensed consolidated financial statements were approved by the Board of Directors on 3 Dhul-Qaada 1438 (corresponding to 26 July 2017).