

**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 2019**



**KPMG Al Fozan & Partners**  
Certified Public Accountants



**Independent auditors' review report on the  
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 condensed 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 2019, and the interim condensed consolidated statements of income and comprehensive income for the three-month and six-month periods then ended, and the interim condensed 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") as endorsed in the Kingdom of Saudi Arabia. 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" that is 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 that are 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 as endorsed in the Kingdom of Saudi Arabia.

**Other regulatory matters**

As required by Saudi Arabian Monetary Authority ("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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3 Dhul Hijjah 1440H  
(4 August 2019)



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

|  |             | 30 June 2019       | 31 December 2018   | 30 June 2018       |
|--|-------------|--------------------|--------------------|--------------------|
|  |             | SAR'000            | SAR'000            | SAR'000            |
| Notes  | (Unaudited) | (Audited)          | (Unaudited)        |                    |
| <b>ASSETS</b>  |             |                    |                    |                    |
| Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks | 3           | 40,197,312         | 43,246,043         | 35,389,240         |
| Due from banks and other financial institutions  | 4           | 28,232,074         | 32,387,760         | 22,768,901         |
| Investments, net   | 5           | 45,867,772         | 43,062,565         | 48,180,781         |
| Financing, net   | 6           | 238,496,224        | 231,758,206        | 226,542,185        |
| Investment properties, net   |             | 1,289,469          | 1,297,590          | 1,305,575          |
| Property and equipment, net  |             | 10,531,008         | 8,897,587          | 8,256,038          |
| Other assets, net  |             | 4,905,709          | 3,629,245          | 5,144,109          |
| <b>TOTAL ASSETS</b>  |             | <b>369,519,568</b> | <b>364,278,996</b> | <b>347,586,829</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |             |                    |                    |                    |
| <b>Liabilities</b>   |             |                    |                    |                    |
| Due to banks and other financial institutions  | 7           | 2,138,906          | 7,289,624          | 4,076,133          |
| Customers' deposits  | 8           | 300,563,170        | 293,909,125        | 280,386,624        |
| Other liabilities  |             | 16,677,790         | 14,526,229         | 10,333,561         |
| <b>Total liabilities</b>   |             | <b>319,379,866</b> | <b>315,724,978</b> | <b>294,796,318</b> |
| <b>Shareholders' equity</b>  |             |                    |                    |                    |
| Share capital  | 15          | 25,000,000         | 16,250,000         | 16,250,000         |
| Statutory reserve  |             | 19,250,000         | 16,250,000         | 16,250,000         |
| Other reserves   | 10          | (284,536)          | (349,555)          | 5,155,525          |
| Retained earnings  |             | 2,424,238          | 12,747,323         | 15,134,986         |
| Proposed gross dividends   | 17          | 3,750,000          | 3,656,250          | -                  |
| <b>Total shareholders' equity</b>  |             | <b>50,139,702</b>  | <b>48,554,018</b>  | <b>52,790,511</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |             | <b>369,519,568</b> | <b>364,278,996</b> | <b>347,586,829</b> |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements

Authorized Board Member



Chief Executive Officer



Chief Financial Officer



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

|   | Notes | For the three-month period ended |                    | For the six-month period ended |                    |
|---|-------|----------------------------------|--------------------|--------------------------------|--------------------|
|   |       | 30 June                          |                    | 30 June                        |                    |
|   |       | 2019                             | 2018               | 2019                           | 2018               |
|   |       | SAR'000                          | SAR'000            | SAR'000                        | SAR'000            |
|   |       | (Restated note 11)               | (Restated note 11) | (Restated note 11)             | (Restated note 11) |
| <b>INCOME</b>   |       |                                  |                    |                                |                    |
| Gross financing and investment income                                     |       | 4,182,540                        | 3,668,806          | 8,269,163                      | 7,226,553          |
| Return on customers', banks' and financial institutions' time investments |       | (121,848)                        | (116,860)          | (264,511)                      | (233,275)          |
| <b>Net financing and investment income</b>                                |       | <b>4,060,692</b>                 | <b>3,551,946</b>   | <b>8,004,652</b>               | <b>6,993,278</b>   |
| Fee from banking services, net  |       | 521,948                          | 469,065            | 994,600                        | 924,085            |
| Exchange income, net  |       | 197,744                          | 194,075            | 371,375                        | 382,488            |
| Other operating income, net   |       | 80,724                           | 72,984             | 129,421                        | 130,623            |
| <b>Total operating income</b>   |       | <b>4,861,108</b>                 | <b>4,288,070</b>   | <b>9,500,048</b>               | <b>8,430,474</b>   |
| <b>EXPENSES</b>   |       |                                  |                    |                                |                    |
| Salaries and employees' related benefits                                  |       | 704,081                          | 734,261            | 1,389,159                      | 1,412,004          |
| Rent and premises related expenses  |       | -                                | 79,763             | -                              | 156,705            |
| Depreciation  |       | 188,426                          | 108,922            | 364,507                        | 217,305            |
| Other general and administrative expenses                                 |       | 716,131                          | 463,066            | 1,219,206                      | 909,365            |
| <b>Total operating expenses before Impairment charge</b>                  |       | <b>1,608,638</b>                 | <b>1,386,012</b>   | <b>2,972,872</b>               | <b>2,695,379</b>   |
| Impairment charge for financing and other financial assets, net           | 6     | 385,631                          | 333,224            | 775,048                        | 783,655            |
| <b>Total operating expenses</b>   |       | <b>1,994,269</b>                 | <b>1,719,236</b>   | <b>3,747,920</b>               | <b>3,479,034</b>   |
| <b>Income before Zakat</b>  |       | <b>2,866,839</b>                 | <b>2,568,834</b>   | <b>5,752,128</b>               | <b>4,951,440</b>   |
| Zakat   | 2&11  | (286,684)                        | (94,611)           | (575,213)                      | (170,935)          |
| <b>Net income for the period</b>  |       | <b>2,580,155</b>                 | <b>2,474,223</b>   | <b>5,176,915</b>               | <b>4,780,505</b>   |
| Basic and diluted earnings per share (SAR)                                | 15    | 1.03                             | 0.99               | 2.07                           | 1.91               |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

  
Authorized Board Member

Chief Executive Officer



Chief Financial Officer



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(UNAUDITED)

|   | For the three-month period ended 30 June |                  | For the six-month period ended 30 June |                  |
|---|--|------------------|--|------------------|
|   | 2019<br>SAR'000                          | 2018<br>SAR'000  | 2019<br>SAR'000                        | 2018<br>SAR'000  |
| Net income for the period   | 2,580,155                                | 2,474,223        | 5,176,915                              | 4,780,505        |
| <i>Other comprehensive income:</i>  |  |                  |  |                  |
| <i>Other comprehensive income that will not be reclassified to the interim condensed consolidated statement of income</i> |  |                  |  |                  |
| - Re-measurement of employees' end of service benefits ("EOSB")   | (58,197)                                 | -                | (58,197)                               | -                |
| - Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI Investments")     | 30,451                                   | (38,662)         | 124,514                                | 33,321           |
| <i>Other comprehensive income that will be reclassified to the interim condensed consolidated statement of income</i>     |  |                  |  |                  |
| - Exchange difference on translation of foreign operations  | (7,942)                                  | (43,435)         | (1,298)                                | (29,689)         |
| <b>Total comprehensive income for the period</b>  | <b>2,544,467</b>                         | <b>2,392,126</b> | <b>5,241,934</b>                       | <b>4,784,137</b> |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

  
Authorized Board Member

Chief Executive Officer

Chief Financial Officer





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

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

|  | Share capital<br>SAR'000 | Statutory reserve<br>SAR'000 | Other reserves<br>SAR'000 | Retained earnings<br>SAR'000 | Proposed gross dividends<br>SAR'000 | Total<br>SAR'000 |
|--|--------------------------|------------------------------|---------------------------|------------------------------|-------------------------------------|------------------|
| For the six month period ended 30 June 2019                  |                          |                              |                           |                              |                                     |                  |
| Balance at 1 January 2019 (Restated note 11)                 | 16,250,000               | 16,250,000                   | (349,555)                 | 12,747,223                   | 3,656,250                           | 48,554,018       |
| Net change in fair value of FVOCI investments                | -                        | -                            | 124,514                   | -                            | -                                   | 124,514          |
| Net movement in foreign currency translation reserve         | -                        | -                            | (1,298)                   | -                            | -                                   | (1,298)          |
| Net other comprehensive income recognized directly in equity | -                        | -                            | 123,216                   | -                            | -                                   | 123,216          |
| Net income for the period                                    | -                        | -                            | -                         | 5,176,915                    | -                                   | 5,176,915        |
| Re-measurement of employee EORS                              | -                        | -                            | (58,197)                  | -                            | -                                   | (58,197)         |
| Total comprehensive income for the period                    | -                        | -                            | 65,019                    | 5,176,915                    | -                                   | 5,241,934        |
| Dividend for second half 2018                                | -                        | -                            | -                         | (8,750,000)                  | (3,656,250)                         | (12,406,250)     |
| Bonus shares issued  | 8,750,000                | -                            | -                         | (3,000,000)                  | -                                   | 5,750,000        |
| Transfer to statutory reserve                                | -                        | 3,000,000                    | -                         | (3,750,000)                  | -                                   | -                |
| Proposed dividends for the first half 2019                   | -                        | -                            | -                         | -                            | 3,750,000                           | 3,750,000        |
| Balance at 30 June 2019                                      | 25,000,000               | 19,250,000                   | (284,536)                 | 2,421,228                    | 3,750,000                           | 50,139,702       |
| For the six month period ended 30 June 2018                  |                          |                              |                           |                              |                                     |                  |
| Balance at 31 December 2017 (Restated note 11)               | 16,250,000               | 16,250,000                   | 5,281,682                 | 13,906,726                   | 4,062,500                           | 55,750,918       |
| Impact of adopting IFRS 9                                    | -                        | -                            | (129,789)                 | (2,752,899)                  | -                                   | (2,882,688)      |
| Other adjustment   | -                        | -                            | -                         | (799,356)                    | -                                   | (799,356)        |
| Restated balance at 1 January 2018                           | 16,250,000               | 16,250,000                   | 5,151,893                 | 10,354,481                   | 4,062,500                           | 52,068,874       |
| Dividends for the second half 2017                           | -                        | -                            | 33,321                    | -                            | (4,062,500)                         | (4,062,500)      |
| Net change in fair value of FVOCI investments                | -                        | -                            | (29,689)                  | -                            | -                                   | (29,689)         |
| Net movement in foreign currency translation reserve         | -                        | -                            | -                         | -                            | -                                   | -                |
| Net other comprehensive income recognized directly in equity | -                        | -                            | 3,632                     | -                            | -                                   | 3,632            |
| Restated net income for the period                           | -                        | -                            | -                         | 4,780,505                    | -                                   | 4,780,505        |
| Total comprehensive income for the period                    | -                        | -                            | 3,632                     | 4,780,505                    | -                                   | 4,784,137        |
| Balance at 30 June 2018 (restated note 11)                   | 16,250,000               | 16,250,000                   | 5,155,525                 | 15,134,986                   | -                                   | 52,790,511       |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member  


Chief Executive Officer  


Chief Financial Officer  


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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019 and 2018

|   | Note | 2019<br>SAR'000    | 2018<br>SAR'000     |
|---|------|--------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |      |                    |                     |
| Income before Zakat   |      | 5,752,128          | 4,951,440           |
| <b>Adjustments to reconcile net income to net cash generated from operating activities:</b> |      |                    |                     |
| Gain on investments held at fair value through statement of income (FVSI investments)       |      | (11,501)           | (9,147)             |
| Depreciation of property, equipment, and right of use asset                                 |      | 364,507            | 217,305             |
| Depreciation of investment properties   |      | 8,121              | 8,431               |
| Impairment charge for financing and other financial assets, net                             | 6    | 775,048            | 783,655             |
| Share of profit of an associate   |      | (3,263)            | (19,680)            |
| <b>Net (increase) / decrease in operating assets</b>  |      |                    |                     |
| Statutory deposit with SAMA and other central banks   |      | 125,316            | (1,118,676)         |
| Due from banks and other financial institutions   |      | (202,395)          | (2,937,129)         |
| Financing   |      | (7,513,066)        | 3,327,044           |
| FVSI investments  |      | 21,484             | 38,849              |
| Other assets, net   |      | (1,280,998)        | (128,644)           |
| <b>Net increase / (decrease) in operating liabilities</b>                                   |      |                    |                     |
| Due to banks and other financial institutions   |      | (5,150,718)        | (1,446,434)         |
| Customers' deposits   |      | 6,654,045          | 7,330,180           |
| Other liabilities   |      | 2,330,062          | 614,376             |
| <b>Net cash generated from operating activities</b>   |      | <u>1,868,770</u>   | <u>11,611,570</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |      |                    |                     |
| Purchase of property and equipment  |      | (657,283)          | (615,217)           |
| Purchase of FVOCI investments   |      | (311,605)          | (384,908)           |
| Proceeds from sale of investments held at amortized cost                                    |      | 46,447,061         | 46,998,594          |
| Purchase of investments held at amortized cost  |      | (48,822,870)       | (58,226,180)        |
| <b>Net cash used in investing activities</b>  |      | <u>(3,344,697)</u> | <u>(12,227,711)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |      |                    |                     |
| Dividends paid  |      | (3,656,250)        | (4,062,500)         |
| Zakat paid  |      | (2,024,443)        | (211,290)           |
| Payment against lease obligations   |      | (124,876)          | -                   |
| <b>Net cash used in financing activities</b>  |      | <u>(5,805,569)</u> | <u>(4,273,790)</u>  |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member



Chief Executive Officer



Chief Financial Officer



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019 and 2018**  
**(CONTINUED)**

|  | Note | 2019<br>SAR'000   | 2018<br>SAR'000   |
|--|------|-------------------|-------------------|
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   |      | (7,281,496)       | (4,889,931)       |
| Cash and cash equivalents at beginning of the period   |      | <u>29,786,503</u> | <u>31,222,195</u> |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>  | 12   | <u>22,505,007</u> | <u>26,332,264</u> |
| Gross financing and investment income received during the period                                 |      | 7,986,861         | 6,587,517         |
| Return on customers', banks' and financial institutions' time investments paid during the period |      | <u>(178,796)</u>  | <u>(189,319)</u>  |
| <u>Non-cash transactions:</u>  |      |                   |                   |
| Net change in fair value of FVOCI investments  |      | <u>124,514</u>    | <u>33,321</u>     |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

  
 Authorized Board Member

  
 Chief Executive Officer

Chief Financial Officer



**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 2019**

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**1. GENERAL**

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the “Bank”) 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  
8467 King Fahd Road - Al Muruj Dist.  
Unit No 1  
Riyadh 12263 - 2743  
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 (“KSA”) through network branches and subsidiaries. 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**

The interim condensed consolidated financial statements of the Group as at and for the period ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards (“IFRS”) respectively, as modified by SAMA for the accounting of zakat (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these relate to zakat) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED) (CONTINUED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019**

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**I. BASIS OF PREPARATION (CONTINUED)**

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for zakat in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia, and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Accordingly, the Group changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

**II. BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements comprise the financial statements of the Group. 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 the entities that are controlled by the Group. The Group controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

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

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.

**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 2019**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**III. SUBSIDIARIES (CONTINUED)**

As at 30 June 2019, the following subsidiaries were included in the interim condensed consolidated financial statements:

| Name of subsidiaries                           | Shareholding % |      |  |
|--|----------------|------|--|
|  | 2019           | 2018 |  |
| Al Rajhi Capital Company – KSA                 | 100%           | 100% | A closed joint stock 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.   |
| Al Rajhi Bank – Kuwait                         | 100 %          | 100% | A foreign branch registered with the Central Bank of Kuwait.   |
| Al Rajhi Bank – Jordan                         | 100%           | 100% | A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.  |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**III. SUBSIDIARIES (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. ADOPTION OF NEW STANDARDS**

Effective 1 January 2019 the Group adopted IFRS 16, Leases and the impact of the adoption of this standard is explained below.

In addition to the adoption of IFRS 16, several other amendments and interpretations apply for the first time in 2019, but these do not have an impact on the interim condensed consolidated financial statements of the Bank.

**Adoption of IFRS 16 – Leases**

The standard replaces the existing guidance on leases, including IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Bank’s statement of financial position, unless the term is 12 months or less or the lease is for low value assets. Thus, the classification required under IAS 17 “Leases” into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which are amortized over the useful life.

The Bank has opted for the modified retrospective application method that is permitted by IFRS 16. As a result of the initial application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the incremental financing rate that is applicable to the Bank at 1 January 2019 (the time of initial application), which was approximately 4.6%. The right of use is classified under property and equipment. On the other hand, the lease liability is classified under other liabilities.

**RECONCILIATION OF LEASE LIABILITIES AS OF 1 JANUARY 2019**

|  | <b>SAR’000</b>   |
|--|------------------|
| <b>Off-balance sheet lease obligations as of 31 December 2018</b>          | <b>1,256,100</b> |
| Lease liability of reasonably certain extension or termination options     | 203,605          |
| Discounting of lease liability using the Bank’s incremental financing rate | (51,946)         |
| Non-lease payments   | (55,398)         |
| <b>Total lease liability recognized as of 1 January 2019</b>               | <b>1,352,361</b> |

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the policies explained below due to the adoption of IFRS 16 and change in accounting for Zakat.

**Right of Use (RoU) Assets / Lease Liabilities**

On initial recognition, at inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Bank and the Bank can direct the usage of such assets.

**Right of Use Assets**

The Bank applies the cost model, and measures right of use assets at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any re-measurement of the lease liability for lease modifications.

Generally, a RoU asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to the transaction, etc., these need to be added to the RoU asset value.

**Lease Liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Bank measures the lease liability by:

- a) Increasing the carrying amount to reflect the incremental financing rate on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and
- c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

Right of use assets are classified under property and equipment, while lease liabilities are classified under other liabilities in the interim condensed consolidated statement of financial position.

**Accounting for Zakat**

As mentioned above, the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat retrospectively, and the effects of the above change are disclosed in note 11 to the interim condensed consolidated financial statements. The change has resulted in a reduction of reported income of the Group for the period ended 30 June 2018 by SR171 million. The change has had no impact on the interim condensed consolidated statement of cash flows for the period ended 30 June 2018.

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**3. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS**

Cash and balances with SAMA and central banks comprise of the following:

|                           | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2018<br>(Audited)<br>SAR'000 | 30 June<br>2018<br>(Unaudited)<br>SAR'000 |
|---------------------------|---|---|---|
| Cash in hand              | <b>9,356,159</b>                                    | 8,133,635                                   | 9,810,235                                 |
| Statutory deposit         | <b>19,318,878</b>                                   | 19,444,194                                  | 19,070,928                                |
| Current account with SAMA | <b>282,275</b>                                      | 293,214                                     | 421,077                                   |
| Mutajara with SAMA        | <b>11,240,000</b>                                   | 15,375,000                                  | 6,087,000                                 |
| <b>Total</b>              | <b>40,197,312</b>                                   | 43,246,043                                  | 35,389,240                                |

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA and other central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian month.

**4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

Due from banks and other financial institutions comprise the following:

|                  | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2018<br>(Audited)<br>SAR'000 | 30 June<br>2018<br>(Unaudited)<br>SAR'000 |
|------------------|---|---|---|
| Current accounts | <b>762,972</b>                                      | 778,769                                     | 1,059,151                                 |
| Mutajara         | <b>27,469,102</b>                                   | 31,608,991                                  | 21,709,750                                |
| <b>Total</b>     | <b>28,232,074</b>                                   | 32,387,760                                  | 22,768,901                                |

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FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019**

**5. INVESTMENTS**

Investments comprise the following:

|   | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2018<br>(Audited)<br>SAR'000 | 30 June<br>2018<br>(Unaudited)<br>SAR'000 |
|---|---|---|---|
| <b>Investment in an associate</b>               | <b>176,017</b>                                      | 172,753                                     | 144,505                                   |
| <b>Investments held at amortized cost</b>       |   |   |   |
| Murabaha with Saudi Government and SAMA         | <b>24,939,223</b>                                   | 22,477,145                                  | 27,438,884                                |
| Sukuk   | <b>17,309,688</b>                                   | 17,395,957                                  | 17,190,605                                |
| Less: Impairment (Stage 1)                      | <b>(28,337)</b>                                     | (28,337)                                    | (28,337)                                  |
| <b>Total investments held at amortized cost</b> | <b>42,220,574</b>                                   | 39,844,765                                  | 44,601,152                                |
| <b>FVSI investments</b>                         |   |   |   |
| Mutual funds                                    | <b>1,512,798</b>                                    | 1,141,584                                   | 1,626,841                                 |
| Sukuk   | <b>800,000</b>                                      | 800,000                                     | 800,000                                   |
| <b>Total FVSI investment</b>                    | <b>2,312,798</b>                                    | 1,941,584                                   | 2,426,841                                 |
| <b>FVOCI investments</b>                        |   |   |   |
| Equity investments                              | <b>1,158,383</b>                                    | 1,103,463                                   | 1,008,283                                 |
| <b>Total investments</b>                        | <b>45,867,772</b>                                   | 43,062,565                                  | 48,180,781                                |

**6. FINANCING, NET**

Net financing comprises the following:

|                                    | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2018<br>(Audited)<br>SAR'000 | 30 June<br>2018<br>(Unaudited)<br>SAR'000 |
|------------------------------------|---|---|---|
| <b>Held at amortized cost</b>      |   |   |   |
| Installment sales                  | <b>177,150,604</b>                                  | 174,683,067                                 | 172,446,269                               |
| Mutajara                           | <b>47,865,001</b>                                   | 45,972,593                                  | 45,386,584                                |
| Murabaha                           | <b>16,292,544</b>                                   | 14,671,326                                  | 14,404,250                                |
| Credit cards                       | <b>2,503,452</b>                                    | 1,973,379                                   | 468,544                                   |
| <b>Performing financing</b>        | <b>243,811,601</b>                                  | 237,300,365                                 | 232,705,647                               |
| <b>By Segments</b>                 |   |   |   |
| Retail                             | <b>173,899,901</b>                                  | 170,482,453                                 | 165,781,792                               |
| Corporate                          | <b>69,911,700</b>                                   | 66,817,912                                  | 66,923,855                                |
| <b>Performing financing</b>        | <b>243,811,601</b>                                  | 237,300,365                                 | 232,705,647                               |
| Non-performing financing           | <b>2,099,910</b>                                    | 2,290,312                                   | 1,918,122                                 |
| <b>Gross financing</b>             | <b>245,911,511</b>                                  | 239,590,677                                 | 234,623,769                               |
| Provision for financing impairment | <b>(7,415,287)</b>                                  | (7,832,471)                                 | (8,081,584)                               |
| <b>Financing, net</b>              | <b>238,496,224</b>                                  | 231,758,206                                 | 226,542,185                               |

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**6. FINANCING, NET (continued)**

The movement in the allowance for impairment of financing for the six-month period ended 30 June is as follows:

| <b><u>2019</u></b>                                | <b>Total<br/>SAR'000</b> |
|---|--------------------------|
| Opening impairment allowance as at 1 January 2019 | 7,832,471                |
| Provided for the period                           | 970,812                  |
| Bad debts written off against provision           | (1,387,996)              |
| Balance at the end of the period                  | <u>7,415,287</u>         |

Allowance for impairment of financing and other financial assets that is charged to the interim condensed consolidated statement of income for the six-month period ended 30 June 2019 comprise of the followings:

|  | <b>SAR'000</b> |
|--|----------------|
| Provided for the period                              | 970,812        |
| Recovery of written off financing, net               | (455,764)      |
| Allowance for financing impairment, net              | 515,048        |
| Allowance for other financial assets impairment, net | 260,000        |
| Charge for the period                                | <u>775,048</u> |

**7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

Due to banks and other financial institutions comprise the following:

|                         | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | <b>31 December<br/>2018<br/>(Audited)<br/>SAR'000</b> | <b>30 June<br/>2018<br/>(Unaudited)<br/>SAR'000</b> |
|-------------------------|---|---|---|
| Current accounts        | 771,236   | 925,945   | 856,227   |
| Banks' time investments | <u>1,367,670</u>                                    | 6,363,679   | 3,219,906   |
| <b>Total</b>            | <u><b>2,138,906</b></u>                             | <u>7,289,624</u>                                      | <u>4,076,133</u>                                    |

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**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019**

**8. CUSTOMERS' DEPOSITS**

Customers' deposits by type comprise the following:

|                             | <b>30 June<br/>2019</b> | 31 December<br>2018 | 30 June<br>2018 |
|-----------------------------|-------------------------|---------------------|-----------------|
|                             | <b>(Unaudited)</b>      | (Audited)           | (Unaudited)     |
|                             | <b>SAR'000</b>          | SAR'000             | SAR'000         |
| Demand deposits             | <b>284,771,766</b>      | 268,416,842         | 261,374,875     |
| Customers' time investments | <b>10,284,104</b>       | 18,689,225          | 14,586,279      |
| Other customer accounts     | <b>5,507,300</b>        | 6,803,058           | 4,425,470       |
| <b>Total</b>                | <b>300,563,170</b>      | 293,909,125         | 280,386,624     |

**9. CONTINGENT LIABILITIES**

Contingent liabilities comprise the following:

|  | <b>30 June<br/>2019</b> | 31 December<br>2018 | 30 June<br>2018 |
|--|-------------------------|---------------------|-----------------|
|  | <b>(Unaudited)</b>      | (Audited)           | (Unaudited)     |
|  | <b>SAR'000</b>          | SAR'000             | SAR'000         |
| Letters of credit                        | <b>1,174,268</b>        | 982,769             | 608,280         |
| Acceptances                              | <b>495,961</b>          | 469,889             | 536,138         |
| Letters of guarantee                     | <b>4,398,704</b>        | 4,877,161           | 4,251,699       |
| Irrevocable commitments to extend credit | <b>8,797,788</b>        | 6,482,436           | 4,376,785       |
| <b>Total</b>                             | <b>14,866,721</b>       | 12,812,255          | 9,772,902       |

The Bank is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed as at 31st December 2018.

**10. OTHER RESERVES**

Other reserves include FVOCI investments reserve, foreign currency translation reserve and employee EOSB reserve.

**11. Zakat**

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

The change in the accounting treatment for zakat and income tax (as explained in note 2) has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

As at and for the six-month period ended 30 June 2018:

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**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019**

**11. Zakat (continued)**

| <b>Financial statement impacted</b>                            | <b>Account</b>                          | <b>Before the restatement for the six-month period ended 30 June 2018</b> | <b>Effect of restatement</b> | <b>As restated as at and for the six-month period ended 30 June 2018:</b> |
|--|---|---|------------------------------|---|
| Interim condensed statement of changes in shareholders' equity | Provision for zakat (retained earnings) | 170,935   | (170,935)                    | -   |
| Interim condensed statement of income                          | Zakat expense                           | -   | 170,935                      | 170,935   |
| Interim condensed statement of income                          | Earnings per share                      | 1.98  | 0.07                         | 1.91  |

As at and for the three -month period ended 30 June 2018:

| <b>Financial statement impacted</b>                            | <b>Account</b>                          | <b>Before the restatement for the three-month period ended 30 June 2018:</b> | <b>Effect of restatement</b> | <b>As restated as at and for the three-month period ended 30 June 2018:</b> |
|--|---|--|------------------------------|---|
| Interim condensed statement of changes in shareholders' equity | Provision for zakat (retained earnings) | 94,611   | (94,611)                     | -   |
| Interim condensed statement of income                          | Zakat expense                           | -  | 94,611                       | 94,611  |
| Interim condensed statement of income                          | Earnings per share                      | 1.03   | 0.04                         | 0.99  |

There has been no impact on the Group's retained earnings and shareholders' equity balance as at 31 December 2018 and 1 January 2018 as a result of this change in accounting.

As a major event during 2018, the Bank reached a settlement agreement with the General Authority for Zakat and Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 5,405,270,925 for the years up to 31 December 2017. The settlement agreement requires the Bank to settle 20% in the first year, and the remaining will be divided equally over the period of five years. Accordingly, the aforementioned zakat liability was re-classified from other reserves to other liabilities.

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**12. CASH AND CASH EQUIVALENTS**

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

|   | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2018<br>(Audited)<br>SAR'000 | 30 June<br>2018<br>(Unaudited)<br>SAR'000 |
|---|---|---|---|
| Cash in hand  | <b>9,356,159</b>                                    | 8,133,635                                   | 9,810,235                                 |
| Due from banks and other financial institutions maturing within 90 days from the date of purchase | <b>1,626,573</b>                                    | 5,984,654                                   | 10,013,952                                |
| Balances with SAMA and other central banks (current accounts)                                     | <b>282,275</b>                                      | 293,214                                     | 421,077                                   |
| Mutajara with SAMA  | <b>11,240,000</b>                                   | 15,375,000                                  | 6,087,000                                 |
| <b>Cash and cash equivalents</b>  | <b>22,505,007</b>                                   | 29,786,503                                  | 26,332,264                                |

**13. 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 segment:                            | Includes individual customers' deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.     |
| Corporate segment:                         | Corporate customers' deposits, credit facilities, and debit current accounts (overdrafts).   |
| Treasury segment:                          | Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.                                 |
| Investment services and brokerage segment: | 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.

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**13. OPERATING SEGMENTS (CONTINUED)**

The Bank's total assets and liabilities as at 30 June 2019 and 2018 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:

| <b>30 June 2019 (Unaudited)</b>   | <b>Retail<br/>segment<br/>SAR'000</b> | <b>Corporate<br/>segment<br/>SAR'000</b> | <b>Treasury<br/>segment<br/>SAR'000</b> | <b>Investment<br/>services and<br/>brokerage<br/>segment<br/>SAR'000</b> | <b>Total<br/>SAR'000</b> |
|---|---------------------------------------|--|---|--|--------------------------|
| <b>Total assets</b>   | <b>194,928,689</b>                    | <b>63,917,474</b>                        | <b>107,537,488</b>                      | <b>3,135,917</b>   | <b>369,519,568</b>       |
| <b>Total liabilities</b>  | <b>286,307,702</b>                    | <b>25,057,309</b>                        | <b>7,891,064</b>                        | <b>123,791</b>   | <b>319,379,866</b>       |
| Financing and investment income from external customers                   | 5,322,710                             | 1,685,734                                | 1,250,776                               | 9,943  | 8,269,163                |
| Inter-segment operating income / (expense)                                | 743,540                               | (595,260)                                | (148,280)                               | -  | -                        |
| Gross financing and investment income                                     | 6,066,250                             | 1,090,474                                | 1,102,496                               | 9,943  | 8,269,163                |
| Return on customers', banks' and financial institutions' time investments | (94,047)                              | (78,226)                                 | (92,238)                                | -  | (264,511)                |
| <b>Net financing and investment income</b>                                | <b>5,972,203</b>                      | <b>1,012,248</b>                         | <b>1,010,258</b>                        | <b>9,943</b>   | <b>8,004,652</b>         |
| Fee from banking services, net  | 496,602                               | 198,271                                  | 117,141                                 | 182,586  | 994,600                  |
| Exchange income, net  | 74,134                                | 33,994                                   | 263,247                                 | -  | 371,375                  |
| Other operating income, net   | 50,998                                | 12,694                                   | 44,494                                  | 21,235   | 129,421                  |
| <b>Total operating income</b>   | <b>6,593,937</b>                      | <b>1,257,207</b>                         | <b>1,435,140</b>                        | <b>213,764</b>   | <b>9,500,048</b>         |
| Depreciation  | (319,421)                             | (7,756)                                  | (34,529)                                | (2,801)  | (364,507)                |
| Impairment charge for financing and other financial assets, net           | (696,190)                             | (76,802)                                 | (2,056)                                 | -  | (775,048)                |
| Other operating expenses  | (2,140,561)                           | (158,964)                                | (236,965)                               | (71,875)   | (2,608,365)              |
| Total operating expenses  | (3,156,172)                           | (243,522)                                | (273,550)                               | (74,676)   | (3,747,920)              |
| <b>Income for the period before Zakat</b>                                 | <b>3,437,765</b>                      | <b>1,013,685</b>                         | <b>1,161,590</b>                        | <b>139,088</b>   | <b>5,752,128</b>         |

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**13. OPERATING SEGMENTS (CONTINUED)**

| 30 June 2018 (Unaudited)  | Retail<br>segment<br>SAR'000 | Corporate<br>segment<br>SAR'000 | Treasury<br>segment<br>SAR'000 | Investment<br>services and<br>brokerage<br>segment<br>SAR'000 | Total<br>SAR'000 |
|---|------------------------------|---------------------------------|--------------------------------|---|------------------|
| Total assets  | 186,279,354                  | 60,589,649                      | 97,569,389                     | 3,148,437   | 347,586,829      |
| Total liabilities   | 260,379,240                  | 25,639,967                      | 8,214,071                      | 563,040   | 294,796,318      |
| Financing and investment income<br>from external customers                      | 4,855,316                    | 1,465,815                       | 893,367                        | 12,055  | 7,226,553        |
| Inter-segment operating income/<br>(expense)                                    | 294,909                      | (382,005)                       | 87,096                         | -   | -                |
| Gross financing and investment<br>income  | 5,150,225                    | 1,083,810                       | 980,463                        | 12,055  | 7,226,553        |
| Return on customers', banks' and<br>financial institutions' time<br>investments | (57,798)                     | (95,866)                        | (79,611)                       | -   | (233,275)        |
| Net financing and investment<br>income  | 5,092,427                    | 987,944                         | 900,852                        | 12,055  | 6,993,278        |
| Fee from banking services, net  | 380,965                      | 144,743                         | 141,012                        | 257,365   | 924,085          |
| Exchange income, net  | 80,539                       | 21,065                          | 280,884                        | -   | 382,488          |
| Other operating income  | 91,531                       | -                               | 34,740                         | 4,352   | 130,623          |
| Total operating income  | 5,645,462                    | 1,153,752                       | 1,357,488                      | 273,772   | 8,430,474        |
| Depreciation  | (190,572)                    | (4,055)                         | (20,063)                       | (2,615)   | (217,305)        |
| Impairment charge for financing<br>and other financial assets, net              | (472,724)                    | (301,704)                       | (9,227)                        | -   | (783,655)        |
| Other operating expenses  | (2,012,080)                  | (166,588)                       | (228,815)                      | (70,591)  | (2,478,074)      |
| Total operating expenses  | (2,675,376)                  | (472,347)                       | (258,105)                      | (73,206)  | (3,479,034)      |
| Income for the period before<br>Zakat   | 2,970,086                    | 681,405                         | 1,099,383                      | 200,566   | 4,951,440        |

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**14. 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

Assets and liabilities at fair values are as follows:

| 30 June 2019 (Unaudited)                                | (SAR'000)          |                  |                  |                    |                    |
|---|--------------------|------------------|------------------|--------------------|--------------------|
|   | Carrying value     | Level 1          | Level 2          | Level 3            | Total              |
| <b>Financial assets</b>                                 |                    |                  |                  |                    |                    |
| <b>Financial assets measured at fair value</b>          |                    |                  |                  |                    |                    |
| FVSI investments  | 1,512,798          | -                | 1,512,798        | -                  | 1,512,798          |
| FVOCI investments                                       | 1,158,383          | 1,134,023        | -                | 24,360             | 1,158,383          |
| Sukuk   | 800,000            | -                | -                | 800,000            | 800,000            |
| <b>Financial assets not measured at fair value</b>      |                    |                  |                  |                    |                    |
| Due from banks and other financial institutions         | 28,232,074         | -                | -                | 28,055,043         | 28,055,043         |
| Investments held at amortized cost                      |                    |                  |                  |                    |                    |
| - Murabaha with Saudi Government and SAMA               | 24,939,223         | -                | -                | 24,934,872         | 24,934,872         |
| - Sukuk   | 17,309,688         | -                | -                | 17,012,137         | 17,012,137         |
| Gross Financing   | 245,911,511        | -                | -                | 261,472,844        | 261,472,844        |
| <b>Total</b>  | <b>319,863,677</b> | <b>1,134,023</b> | <b>1,512,798</b> | <b>332,299,256</b> | <b>334,946,077</b> |
| <b>Financial liabilities</b>                            |                    |                  |                  |                    |                    |
| <b>Financial liabilities not measured at fair value</b> |                    |                  |                  |                    |                    |
| Due to banks and other financial institutions           | 2,138,906          | -                | -                | 2,138,889          | 2,138,889          |
| Customers' deposits                                     | 300,563,170        | -                | -                | 300,563,170        | 300,563,170        |
| <b>Total</b>  | <b>302,702,076</b> | <b>-</b>         | <b>-</b>         | <b>302,702,059</b> | <b>302,702,059</b> |

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**14. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

| 31 December 2018 (Audited)                              | (SAR'000)          |                  |                  |                    |                    |
|---|--------------------|------------------|------------------|--------------------|--------------------|
|   | Carrying value     | Level 1          | Level 2          | Level 3            | Total              |
| <b>Financial assets</b>                                 |                    |                  |                  |                    |                    |
| <b>Financial assets measured at fair value</b>          |                    |                  |                  |                    |                    |
| FVSI investments  | 1,141,584          | -                | 1,141,584        | -                  | 1,141,584          |
| FVOCI investments                                       | 1,103,463          | 1,079,101        | -                | 24,362             | 1,103,463          |
| Sukuk   | 800,000            | -                | -                | 800,000            | 800,000            |
| <b>Financial assets not measured at fair value</b>      |                    |                  |                  |                    |                    |
| Due from banks and other financial institutions         | 32,387,760         | -                | -                | 32,280,776         | 32,280,776         |
| Investments held at amortized cost                      |                    |                  |                  |                    |                    |
| - Murabaha with Saudi Government and SAMA               | 22,477,145         | -                | -                | 22,478,958         | 22,478,958         |
| - Sukuk   | 17,395,957         | -                | -                | 17,274,997         | 17,274,997         |
| Gross Financing   | 239,590,677        | -                | -                | 248,936,535        | 248,936,535        |
| <b>Total</b>  | <b>314,896,586</b> | <b>1,079,101</b> | <b>1,141,584</b> | <b>321,795,628</b> | <b>324,016,313</b> |
| <b>Financial liabilities</b>                            |                    |                  |                  |                    |                    |
| <b>Financial liabilities not measured at fair value</b> |                    |                  |                  |                    |                    |
| Due to banks and other financial institutions           | 7,289,624          | -                | -                | 7,287,557          | 7,287,557          |
| Customers' deposits                                     | 293,909,125        | -                | -                | 293,909,125        | 293,909,125        |
| <b>Total</b>  | <b>301,198,749</b> | <b>-</b>         | <b>-</b>         | <b>301,196,682</b> | <b>301,196,682</b> |

FVSI investments classified as level 2 represent 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 the interim condensed consolidated statement of financial position.

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 institutions 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 interim condensed consolidated statement of income without reversal of deferred day one profit and loss.

**Sensitivity analysis**

The effect on the Bank's equity investments held as FVOCI due to reasonably possible changes in prices, with all other variables held constant, is as follows:

| Local Market Indices | 30 June 2019             |                   | 31 December 2018         |                   |
|----------------------|--------------------------|-------------------|--------------------------|-------------------|
|                      | Change in Equity price % | Effect in SAR 000 | Change in Equity price % | Effect in SAR 000 |
| Local Share Equity   | +/- 10                   | +/- 113,402       | +/- 10                   | +/- 107,910       |

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**15. SHARE CAPITAL AND EARNINGS PER SHARE**

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each as of 30 June 2019 (31 December 2018 and 30 June 2018: 1,625 million shares of SAR 10 each).

On the 4th of April 2019, the Bank's extraordinary general assembly approved to increase the share capital from SAR 16,250 million to SAR 25,000 million through issuance of stock dividends (7 shares for every 13 shares held). The amount of the capital increase was transferred from retained earnings.

Basic and diluted earnings per share for the period ended 30 June, 2019 and 2018 is calculated by dividing the net income for the period by 2,500 million shares to give a retrospective effect of change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

**16. 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 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 interim condensed consolidated statement of financial position, commitments and contingencies to reflect their relative risks as shown in the following table:

|  | <b>30 June<br/>2019<br/>(Unaudited)<br/>SAR'000</b> | 31 December<br>2018<br>(Audited)<br>SAR'000 | 30 June<br>2018<br>(Unaudited)<br>SAR'000 |
|--|---|---|---|
| Credit risk weighted assets                  | <b>225,327,954</b>                                  | 222,309,112                                 | 217,166,376                               |
| Operational risk weighted assets             | <b>28,094,351</b>                                   | 28,094,351                                  | 26,832,383                                |
| Market risk weighted assets                  | <b>4,367,467</b>                                    | 4,102,847                                   | 5,356,719                                 |
| <b>Total Pillar I - risk weighted assets</b> | <b>257,789,772</b>                                  | 254,506,310                                 | 249,355,478                               |
| Tier I capital                               | <b>50,139,702</b>                                   | 48,554,018                                  | 52,790,511                                |
| Tier II capital                              | <b>2,817,334</b>                                    | 2,778,864                                   | 2,713,984                                 |
| <b>Total tier I &amp; II capital</b>         | <b>52,957,036</b>                                   | 51,332,882                                  | 55,504,495                                |
| <b>Capital Adequacy Ratio %</b>              |   |   |   |
| Tier I ratio                                 | <b>19.45%</b>                                       | 19.08%                                      | 21.17%                                    |
| Tier I & II ratio                            | <b>20.54%</b>                                       | 20.17%                                      | 22.26%                                    |

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**17. PROPOSED GROSS DIVIDENDS**

On 18 July 2019, the Board of Directors recommended the distribution of an interim dividends amounting to SAR3,750 million (SAR 1.5 per share) for the first half of 2019.

**18. RECLASSIFICATION OF COMPARATIVE FIGURES**

Financing related fee amortization, which had previously been included in fees from banking services, is now included in gross financing and investment income. The change is being made to reflect financing related fee amortization as a yield adjustment to gross financing income. Accordingly, the previously reported amounts in the interim condensed consolidated financial statements for the six-month period ended 30 June 2018 have been reclassified to conform to the current period presentation and therefore, this change increases the previously reported gross financing and investment income and reduces the fee from banking services. In addition, a financial institution financing amounting to SR1,553 and 1,580 million has been reclassified to due from banks as at 30 June 2018 and 31 December 2018 respectively.

**19. APPROVAL OF THE BOARD OF DIRECTORS**

The interim condensed consolidated financial statements were approved by the Board of Directors on 28 Dhul-Qa'dah 1440 (corresponding to 31 July 2019).