

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

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



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 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 September 2017, and the interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, and the interim consolidated statements of changes in shareholders' equity and cash flows for the nine-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

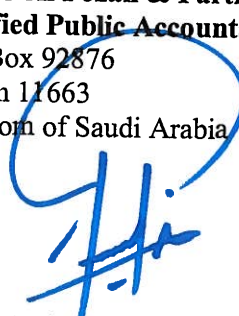


Independent auditors' review report on the Interim Condensed Consolidated Financial Statements (continued)

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2017 SAR'000 (Unaudited)	31 December 2016 SAR'000 (Audited)	30 September 2016 SAR'000 (Unaudited)
	Notes			
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks		33,836,730	42,149,905	41,469,344
Due from banks and other financial institutions		21,228,267	26,578,525	16,839,666
Investments	3	35,691,642	34,032,879	33,752,767
Financing, net	4	233,180,894	224,994,124	225,863,197
Investment properties, net		1,318,222	1,330,868	1,335,084
Property and equipment, net		7,299,421	6,485,162	6,148,990
Other assets, net		5,474,680	4,140,354	5,107,171
TOTAL ASSETS		338,029,856	339,711,817	330,516,219
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		7,043,425	8,916,970	2,003,510
Customers' deposits	5	270,102,216	272,593,136	272,599,968
Other liabilities		7,507,824	6,254,839	6,129,600
Total liabilities		284,653,465	287,764,945	280,733,078
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	4,554,122	3,873,362	3,756,901
Retained earnings		16,322,269	12,236,010	13,526,240
Proposed gross dividends and Zakat		-	3,337,500	-
Total shareholders' equity		53,376,391	51,946,872	49,783,141
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		338,029,856	339,711,817	330,516,219

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

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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 nine-month period ended	
		30 September		30 September	
		2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000
INCOME					
Gross financing and investment income		3,178,439	3,075,163	9,299,727	8,666,140
Return on customers', banks' and financial institutions' time investments		(146,332)	(160,685)	(427,460)	(364,284)
Net financing and investment income		3,032,107	2,914,478	8,872,267	8,301,856
Fee from banking services, net		708,226	692,905	2,011,722	2,370,171
Exchange income, net		200,392	203,174	623,149	694,905
Other operating income, net		35,632	67,293	199,264	162,129
Total operating income		3,976,357	3,877,850	11,706,402	11,529,061
EXPENSES					
Salaries and employees related benefits		730,395	759,628	2,183,076	2,189,362
Rent and premises related expenses		77,963	75,177	230,970	206,980
Depreciation and amortization		107,731	108,001	328,547	317,364
Other general and administrative expenses		385,175	354,909	1,108,469	1,036,536
Impairment charge for financing, net		409,884	541,436	1,187,581	1,634,206
Impairment charge for available-for-sale investments		-	29,208	-	65,923
Total operating expenses		1,711,148	1,868,359	5,038,643	5,450,371
Net income for the period		2,265,209	2,009,491	6,667,759	6,078,690
Weighted average number of shares outstanding	11	1,625,000	1,625,000	1,625,000	1,625,000
Basic and diluted earnings per share (SAR)	12	1.39	1.24	4.10	3.74

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 September		For the nine-month period ended 30 September	
	2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000
Net income for the period	2,265,209	2,009,491	6,667,759	6,078,690
<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	(52,808)	(117,163)	(100,085)	(155,457)
- Net amounts transferred to consolidated statement of income	14,676	39,200	(35,327)	82,738
- Exchange difference on translation of foreign operations	29,321	22,008	71,646	59,451
Total comprehensive income for the period	2,256,398	1,953,536	6,603,993	6,065,422

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 (UNAUDITED)

	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 nine-month period ended 30 September 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)
Dividends paid for the first half of 2017	14	-	-	-	(2,437,500)	-	(2,437,500)
Net change in fair value of available - for - sale investments		-	-	(100,085)	-	-	(100,085)
Net amounts transferred to consolidated statement of income for available - for - sale investment		-	-	(35,327)	-	-	(35,327)
Net movement in foreign currency translation reserve		-	-	71,646	-	-	71,646
Net loss recognized directly in equity		-	-	(63,766)	-	-	(63,766)
Net income for the period		-	-	-	6,667,759	-	6,667,759
Total comprehensive income for the period		-	-	(63,766)	6,667,759	-	6,603,993
Zakat payable transferred to other liability		-	-	-	(144,000)	-	(144,000)
Zakat paid		-	-	(155,474)	-	-	(155,474)
Balance at the end of the period (unaudited)		16,250,000	16,250,000	4,554,122	16,322,269	-	53,376,391

For the nine-month period ended 30 September 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)
Dividends paid for the first half of 2016	14	-	-	-	(1,218,750)	-	(1,218,750)
Net change in fair value of available - for - sale investments		-	-	(155,457)	-	-	(155,457)
Net amounts transferred to consolidated statement of income for available - for - sale investment		-	-	82,738	-	-	82,738
Net movement in foreign currency translation reserve		-	-	59,451	-	-	59,451
Net loss recognized directly in equity		-	-	(13,268)	-	-	(13,268)
Net income for the period		-	-	-	6,078,690	-	6,078,690
Total comprehensive income for the period		-	-	(13,268)	6,078,690	-	6,065,422
Zakat paid		-	-	(77,585)	-	-	(77,585)
Balance at the end of the period (unaudited)		16,250,000	16,250,000	3,756,901	13,526,240	-	49,783,141

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 CASH FLOWS (UNAUDITED)

	For the nine-month period ended 30 September	
	2017 SAR'000	2016 SAR'000
Notes		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	6,667,759	6,078,690
Adjustments to reconcile net income to net cash (used in) / from operating activities:		
Gain on investments held at fair value through statement of income (FVSI)	(10,649)	(14,328)
Depreciation and amortization of property and equipment	328,547	317,364
Depreciation of investment properties	12,646	-
Gain on sale of property and equipment	(548)	-
Impairment charge for financing, net	1,187,581	1,634,206
Impairment charge for available-for-sale investments	-	65,923
Share of profit in an associate	(22,526)	(7,802)
Net (increase) / decrease in operating assets		
Statutory deposit with SAMA and other central banks	(91,804)	(555,150)
Due from banks and other financial institutions	3,649,662	11,479,000
Financing	(9,374,351)	(17,279,535)
Investments held as FVSI	(822)	1,014,955
Other assets, net	(1,262,680)	(416,507)
Net increase / (decrease) in operating liabilities		
Due to banks and other financial institutions	(1,873,545)	(2,554,714)
Customers' deposits	(2,490,920)	14,778,327
Other liabilities	1,092,336	(488,568)
Net cash (used in) / from operating activities	(2,189,314)	14,051,861
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,143,069)	(872,507)
Purchase of available -for-sale investments	(281,477)	(328,602)
Proceeds from sale and maturity of investments held at amortized cost	86,045,694	98,973,590
Purchase of investments held at amortized cost	(87,524,395)	(93,652,358)
Proceeds from sale of property and equipment	811	-
Net cash (used in) / from investing activities	(2,902,436)	4,120,123
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	14 (4,858,351)	(2,826,311)
Zakat paid	(155,474)	(77,585)
Net cash used in financing activities	(5,013,825)	(2,903,896)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(10,105,575)	15,268,088
Cash and cash equivalents at beginning of the period	32,683,985	12,382,480
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8 22,578,410	27,650,568

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

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September		
Notes	2017	2016
	SAR'000	SAR'000
Gross financing and investment income received during the period	9,202,082	8,307,927
Return on customers', banks' and financial institutions' time investments paid during the period	(430,519)	(378,097)
<u>Non-cash transactions:</u>		
Net change in fair value less transferred to interim consolidated statement of income from available-for-sale investments	(135,412)	(72,719)

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



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 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 nine month period ended 30 September 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).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. BASIS OF PREPARATION (CONTINUED)

The Group also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

These 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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. SUBSIDIARIES (CONTINUED)

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.

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 September, 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.

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

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 Company for Cooperative insurance.
Al Rajhi Company for management services – KSA	100%	100%	A limited liability company registered in Kingdom of Saudi Arabia to provide recruitment services.

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 was 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 that had no significant impact on the Bank's Interim condensed consolidated financial statements:

- 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
(A SAUDI JOINT STOCK COMPANY)

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

3. INVESTMENTS

Investments comprise the following:

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Investment in an associate*	111,806	89,280	83,320
Investments held at amortized cost			
Murabaha with SAMA	25,443,283	30,451,217	30,416,448
Sukuk	8,587,530	2,100,895	2,214,885
Total investments held at amortized cost	34,030,813	32,552,112	32,631,333
Investments held at fair value through statement of income (FVSI)			
Mutual funds	126,743	115,272	120,467
Available-for-sale investments			
Equity investments	800,381	851,169	737,541
Mutual funds	621,899	425,046	180,106
Total available-for-sale investments	1,422,280	1,276,215	917,647
Investments	35,691,642	34,032,879	33,752,767

***Investment in an associate**

The Bank owns 22.5% (31 December 2016 and 30 September 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 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Corporate Mutajara	49,658,198	44,884,996	46,344,683
Installment sales	171,166,379	168,105,163	166,840,936
Murabaha	16,047,872	15,294,878	15,554,380
Credit cards	227,092	474,187	364,490
Performing financing	237,099,541	228,759,224	229,104,489
Non-performing financing	1,732,206	2,867,601	3,204,306
Gross financing	238,831,747	231,626,825	232,308,795
Provision for financing impairment	(5,650,853)	(6,632,701)	(6,445,598)
Financing, net	233,180,894	224,994,124	225,863,197

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

5. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following:

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Demand deposits	248,470,783	245,707,815	244,519,827
Customers' time investments	16,568,809	21,645,586	22,343,260
Other customer accounts	5,062,624	5,239,735	5,736,881
Total	270,102,216	272,593,136	272,599,968

6. COMMITMENTS AND CONTINGENCIES

Commitment and contingencies are as following:

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Letters of credit	804,763	1,042,924	1,183,078
Acceptances	269,188	708,989	896,660
Letters of guarantee	5,287,901	5,264,324	5,566,349
Irrevocable commitments to extend credit	2,633,429	5,644,159	3,285,407
Total	8,995,281	12,660,396	10,931,494

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.

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8. CASH AND CASH EQUIVALENTS

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

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Cash in hand	9,531,320	8,335,452	10,526,825
Due from banks and other financial institutions maturing within 90 days from the date of purchase	6,976,929	8,677,525	4,168,666
Balances with SAMA and other central banks (current accounts)	681,722	489,957	290,605
Mutajara with SAMA	5,388,439	15,181,051	12,664,472
Cash and cash equivalents	22,578,410	32,683,985	27,650,568

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, fees from banking services and remittance business.
Corporate:	Includes deposits of high net worth individuals, credit facilities, and 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 September 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.

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9. OPERATING SEGMENTS (CONTINUED)

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

30 September 2017(Unaudited)	Retail SAR'000	Corporate SAR'000	Treasury SAR'000	Investment services and brokerage SAR'000	Total SAR'000
Total assets	183,142,240	66,224,578	86,219,326	2,443,712	338,029,856
Total liabilities	244,011,636	30,320,240	10,189,293	132,296	284,653,465
Gross financing and investments income from external customers	6,008,761	2,104,258	1,170,732	15,976	9,299,727
Inter-segment operating income / (expense)	1,222,612	(614,521)	(608,091)	-	-
Gross financing and investments income	7,231,373	1,489,737	562,641	15,976	9,299,727
Return on customers', banks' and financial institutions' time investments	(53,232)	(197,244)	(176,984)	-	(427,460)
Net financing and investments income	7,178,141	1,292,493	385,657	15,976	8,872,267
Fee from banking services, net	1,265,509	416,371	29,778	300,064	2,011,722
Exchange income, net	-	-	623,149	-	623,149
Other operating income	113,063	-	79,152	7,049	199,264
Total operating income	8,556,713	1,708,864	1,117,736	323,089	11,706,402
Depreciation and amortization	(317,001)	(3,763)	(3,358)	(4,425)	(328,547)
Impairment charge for financing, net	(1,062,335)	(124,871)	(375)	-	(1,187,581)
Other operating expenses	(3,085,524)	(282,806)	(58,635)	(95,550)	(3,522,515)
Total operating expenses	(4,464,860)	(411,440)	(62,368)	(99,975)	(5,038,643)
Net income for the period	4,091,853	1,297,424	1,055,368	223,114	6,667,759

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9, OPERATING SEGMENTS (CONTINUED)

30 September 2016 (Unaudited)	Retail SAR'000	Corporate SAR'000	Treasury SAR'000	Investment services and brokerage SAR'000	Total SAR'000
Total assets	178,423,873	63,778,348	86,244,136	2,069,862	330,516,219
Total liabilities	241,353,222	34,339,348	4,904,318	136,190	280,733,078
Gross financing and investments income from external customers	6,021,345	1,727,102	900,274	17,419	8,666,140
Inter-segment operating income/ (expense)	791,370	(484,165)	(307,205)	-	-
Gross financing and investments income	6,812,715	1,242,937	593,069	17,419	8,666,140
Return on customers', banks' and financial institutions' time investments	(48,979)	(214,855)	(100,450)	-	(364,284)
Net financing and investments income	6,763,736	1,028,082	492,619	17,419	8,301,856
Fee from banking services, net	1,612,213	374,312	29,684	353,962	2,370,171
Exchange income, net	-	-	694,905	-	694,905
Other operating income, net	52,689	414	25,574	83,452	162,129
Total operating income	8,428,638	1,402,808	1,242,782	454,833	11,529,061
Depreciation and amortization	(297,520)	(1,958)	(2,274)	(15,612)	(317,364)
Impairment charge for financing, net	(925,176)	(708,943)	(87)	-	(1,634,206)
Impairment charge for available- for-sale investments	-	-	(65,923)	-	(65,923)
Other operating expenses	(2,974,955)	(264,697)	(70,088)	(123,138)	(3,432,878)
Total operating expenses	(4,197,651)	(975,598)	(138,372)	(138,750)	(5,450,371)
Net income for the period	4,230,987	427,210	1,104,410	316,083	6,078,690

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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 September 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	126,743	-	126,743	-	126,743
Available-for- sale investments	1,422,280	776,900	621,899	23,481	1,422,280
Financial assets not measured at fair value:					
Due from banks and other financial institutions	21,228,267	-	-	21,171,874	21,171,874
Investments held at amortized cost:					
- Murabaha with SAMA	25,443,283	-	-	25,448,096	25,448,096
- Sukuk	8,587,530	-	-	8,502,144	8,502,144
Gross Financing	238,831,747	-	-	248,879,272	248,879,272
Total	295,639,850	776,900	748,642	304,024,867	305,550,409
<u>Financial liabilities</u>					
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	7,043,425	-	-	7,043,417	7,043,417
Customers' deposits	270,102,216	-	-	270,097,993	270,097,993
Total	277,145,641	-	-	277,141,410	277,141,410

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

	(SAR'000)				
31 December 2016 (Audited)	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.

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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 September 2017 (Unaudited)		31 December 2016 (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	+/-74.86	+ /- 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 September 2016: 1,625 million shares).

12. EARNINGS PER SHARE

Basic and diluted earnings per share for the three-month and nine-month periods ended 30 September 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:

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13. CAPITAL ADEQUACY (CONTINUED)

	30 September 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	30 September 2016 (Unaudited) SAR'000
Credit risk weighted assets	225,247,894	221,810,142	219,224,447
Operational risk weighted assets	25,067,746	25,067,746	23,808,192
Market risk weighted assets	5,968,564	2,096,868	3,299,608
Total Pillar I - risk weighted assets	256,284,204	248,974,756	246,332,247
 Tier I capital	 53,376,390	 51,946,872	 49,783,140
Tier II capital	2,815,599	2,772,627	2,740,306
Total tier I & II capital	56,191,989	54,719,499	52,523,446
 Capital Adequacy Ratio %			
Tier I ratio	20.83%	20.86%	20.21%
Tier I + II ratio	21.93%	21.98%	21.32%

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 Extra ordinary 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.

On 19 July 2016, the distribution of dividends to shareholders was approved for the first half of the current fiscal year, amounting to SAR 1,218.75 million as SAR 0.75 per share net of Zakat deduction on shareholders. The eligibility of dividends shall be for the shareholders registered in the registers of the Securities Depository Center (Tadawul) on 24 July 2016.

The 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 1.00 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 2 Safar 1439 (corresponding to 22 October 2017).