

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
**FOR THE THREE- MONTH PERIOD ENDED 31 MARCH
2017**

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**

1. GENERAL

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

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

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

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

SHARI'A AUTHORITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PREPARATION

During 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments are as follows:

- the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- Zakat and tax are to be accrued on a quarterly basis and recognized in consolidated statement of shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the quarter ended 31 March 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
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 consolidated 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 to, or has a right to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

Subsidiaries are consolidated from the date on which the control is transferred to the Bank and are ceased to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as “the Group”). As at 31 March, the following subsidiaries were included in the interim condensed consolidated financial statements:

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

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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:

- 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.

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3. INVESTMENTS, NET

Investments comprise the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Investment in an associate*	96,607	89,280	76,553
Investments held at amortized cost			
Murabaha with SAMA	22,454,762	30,451,217	38,171,801
Sukuk	2,213,963	2,100,895	1,266,225
Total investments held at amortized cost	24,668,725	32,552,112	39,438,026
Investments held at fair value through statement of income (FVSI)			
Mutual funds	115,477	115,272	569,369
Available-for-sale investments			
Equity investments	430,282	851,169	589,288
Mutual funds	531,949	425,046	438,776
Total available-for-sale investments	962,231	1,276,215	1,028,064
Investments	25,843,040	34,032,879	41,112,012

***Investment in an associate**

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

4. FINANCING, NET

Net financing comprises the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Mutajara	47,984,858	44,884,996	41,325,987
Installment sales	169,072,340	168,105,163	163,857,790
Murabaha	15,816,658	15,294,878	13,292,968
Credit cards	269,387	474,187	243,956
Performing financing	233,143,243	228,759,224	218,720,701
Non-performing financing	2,379,993	2,867,601	3,667,772
Gross financing	235,523,236	231,626,825	222,388,473
Provision for financing impairment	(6,102,343)	(6,632,701)	(5,994,477)
Financing, net	229,420,893	224,994,124	216,393,996

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5. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Demand deposits	248,456,724	245,707,815	247,226,096
Customers' time investments	17,032,030	21,645,586	12,342,323
Other customer accounts	5,800,952	5,239,735	6,848,956
Total	271,289,706	272,593,136	266,417,375

6. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies are as follows:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Letters of credit	1,449,450	1,042,924	1,239,000
Acceptances	788,321	708,989	634,755
Letters of guarantee	5,393,597	5,264,324	5,869,318
Irrevocable commitments to extend credit	6,120,504	5,644,159	2,884,564
Total	13,751,872	12,660,396	10,627,637

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 condensed consolidated statement of cash flows comprise the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Cash in hand	9,346,360	8,335,452	9,043,933
Due from banks and other financial institutions maturing within 90 days from the date of purchase	4,027,870	8,677,525	3,770,301
Balances with SAMA and other central banks (current accounts)	302,695	489,957	570,686
Mutajara with SAMA	17,872,511	15,181,051	-
Cash and cash equivalents	31,549,436	32,683,985	13,384,920

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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 their performance.

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

Retail:	Includes individual customers' deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services and remittance business.
Corporate:	Includes deposits of high net worth individuals and corporate customer deposits, credit facilities, and debit current accounts (overdrafts) of corporate customers.
Treasury:	Includes treasury services, Murabaha with SAMA 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 31 March 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.

The Bank's total assets and liabilities as at 31 March 2017 and 2016 together with the total operating income and expenses, and net income for the three month periods then ended, for each business segment, are analyzed as follows:

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9. OPERATING SEGMENTS (CONTINUED)

31 March 2017 (Unaudited)	Retail SAR'000	Corporate SAR'000	Treasury SAR'000	Investment services and brokerage SAR'000	Total SAR'000
Total assets	179,089,548	64,599,784	91,226,758	2,313,582	337,229,672
Total liabilities	245,174,605	28,724,309	11,779,275	120,890	285,799,079
Financing and investments income from external customers	1,956,642	675,249	387,622	4,966	3,024,479
Inter-segment operating income / (expense)	385,564	(173,881)	(211,683)	-	-
Gross financing and investments income	2,342,206	501,368	175,939	4,966	3,024,479
Return on customers' time investments	(15,368)	(68,446)	(54,928)	-	(138,742)
Net financing and investments income	2,326,838	432,922	121,011	4,966	2,885,737
Fee from banking services, net	383,649	153,975	9,536	114,005	661,165
Exchange income, net	-	-	210,565	-	210,565
Other operation income	37,858	-	55,237	2,523	95,618
Total operating income	2,748,345	586,897	396,349	121,494	3,853,085
Depreciation	(106,244)	(1,034)	(910)	(1,523)	(109,711)
Impairment charge for financing and others	(448,270)	75,861	-	-	(372,409)
Other operating expenses	(1,004,795)	(93,269)	(19,329)	(32,674)	(1,150,067)
Total operating expenses	(1,559,309)	(18,442)	(20,239)	(34,197)	(1,632,187)
Net income for the period	1,189,036	568,455	376,110	87,297	2,220,898

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9. OPERATING SEGMENTS (CONTINUED)

31 March 2016 (Unaudited)	Retail SAR'000	Corporate SAR'000	Treasury SAR'000	Investment services and brokerage SAR'000	Total SAR'000
Total assets	170,224,600	58,088,593	92,173,133	2,810,698	323,297,024
Total liabilities	246,654,936	17,910,867	10,805,842	921,533	276,293,178
Financing and investments income from external customers	1,964,176	491,557	238,151	6,186	2,700,070
Inter-segment operating income/ (expense)	296,769	(189,540)	(107,229)	-	-
Gross financing and investments income	2,260,945	302,017	130,922	6,186	2,700,070
Return on customers' time investments	(55,395)	(70,342)	-	-	(125,737)
Net financing and investments income	2,205,550	231,675	130,922	6,186	2,574,333
Fee from banking services, net	544,399	135,868	8,692	141,446	830,405
Exchange income, net	-	-	243,598	-	243,598
Other operating income / (loss)	(62,468)	19,823	64,421	24,938	46,714
Total operating income	2,687,481	387,366	447,633	172,570	3,695,050
Depreciation	(93,318)	(3,421)	(1,084)	(5,170)	(102,993)
Impairment charge for financing and others	(298,010)	(239,476)	-	-	(537,486)
Other operating expenses	(907,594)	(70,519)	(15,826)	(43,364)	(1,037,303)
Total operating expenses	(1,298,922)	(313,416)	(16,910)	(48,534)	(1,677,782)
Net income for the period	1,388,559	73,950	430,723	124,036	2,017,268

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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:

31 March 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	115,477	-	115,477	-	115,477
Available-for-sale investments	962,231	406,838	531,949	23,444	962,231
Financial assets not measured at fair value:					
Due from banks and other financial institutions	23,428,870	-	-	23,266,081	23,266,081
Investments held at amortized cost					
- Murabaha with SAMA	22,454,762	-	-	22,436,103	22,436,103
- Sukuk	2,213,963	-	-	2,207,992	2,207,992
Gross Financing	235,523,236	-	-	244,674,900	244,674,900
Total	284,698,539	406,838	647,426	292,608,520	293,662,784
<u>Financial liabilities</u>					
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	7,932,676	-	-	7,932,681	7,932,681
Customers' deposits	271,289,706	-	-	271,297,037	271,297,037
Total	279,222,382	-	-	279,229,718	279,229,718

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

31 December 2016 (Audited)	(SAR'000)				Total
	Carrying value	Level 1	Level 2	Level 3	
<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 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 statement of interim condensed consolidated statements 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 equity investments measured at 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	31 March 2017		31 December 2016	
	Change in Equity price %	Effect in SAR Million	Change in Equity price %	Effect in SAR Million
Equity	+ /- 10	+ /- 2.34	+ /- 10	+ /- 2.34
Mutual funds	+ /- 10	+ /- 64.74	+ /- 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).

12. EARNINGS PER SHARE

Basic and diluted earnings per share for the periods ended 31 March 2017 and 2016 have been calculated by dividing the net income for the period by the weighted average number of shares outstanding.

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)

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Credit risk weighted assets	226,431,746	221,810,142	213,585,902
Operational risk weighted assets	25,067,746	25,067,746	23,808,192
Market risk weighted assets	3,946,106	2,096,868	1,747,719
Total Pillar I - risk weighted assets	255,445,598	248,974,756	239,141,813
Tier I capital	51,430,593	51,946,872	47,003,847
Tier II capital	2,830,397	2,772,627	2,669,824
Total tier I & II capital	54,260,990	54,719,499	49,673,671
Capital Adequacy Ratio %			
Tier I ratio	20.13%	20.86%	19.66%
Tier I & II ratio	21.24%	21.98%	20.77%

14. DIVIDENDS PAID

The Extraordinary General Assembly Meeting held on 20 Jumada' II 1438H (corresponding to 19 March 2017), approved the distribution of dividends to shareholders for the second half of the year ended 31 December 2016, amounting to SAR 2,437.5 million as SAR 1.50 per share net of Zakat deduction on shareholders amounting to SAR 900 million.

The Ordinary General 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 consolidated financial statements were approved by the Board of Directors on 15 Shaaban 1438 (corresponding to 11 May 2017).