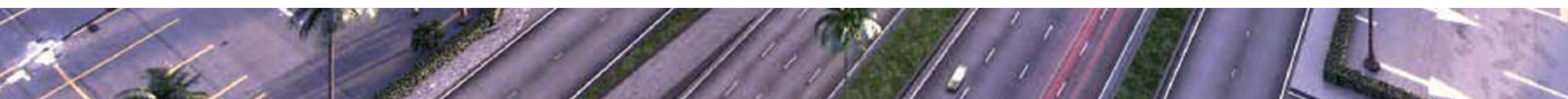
Annual Report | 2019

الراجحي المالية
Al Rajhi Capital



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In The Name of Allah
The Most Merciful, The Most Gracious

The Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud

His Royal Highness Crown Prince
Mohammad Bin Salman Bin Abdulaziz Al Saud


Al Rajhi Capital
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Asset Management
Investment Banking
Research
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CORPORATE PROFILE

Founded in 2008, Al Rajhi Capital is a leading financial services company, providing a range of innovative financial products and services across Brokerage, Asset Management and Investment Banking. As the investment banking subsidiary of Al Rajhi Bank, one of the largest Islamic banks in the world with assets of SAR 384 billion as of 31 December 2019, the Company combines the strength and resources of its regional presence with best-in-class investment advice and insightful research, to deliver fully-integrated and streamlined solutions.

Capitalizing on this world-class experience, and through the expertise of its investment and research teams, Al Rajhi Capital is a market leader in the delivery of bespoke financial and investment solutions which address the ever-changing needs of clients. Headquartered in Riyadh, and operating from investment centers and offices across the Kingdom of Saudi Arabia, the Company is uniquely positioned to provide its client base with seasoned advice based on global experience and regional expertise.

Vision

To be the leading investment firm in the Kingdom of Saudi Arabia, providing innovative and reliable investment solutions to satisfy our clients' needs and help them succeed financially. We seek to acquire and maintain leadership positions in each of our chosen business lines.

Values

We will be guided by the following values to achieve our vision:

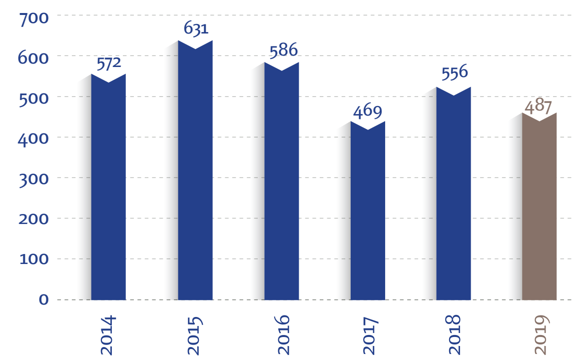
- **P**rofessionalism
- **R**ecurring value to clients
- **I**ntegrity
- **D**ependability
- **E**mployer of choice

Operational Highlights

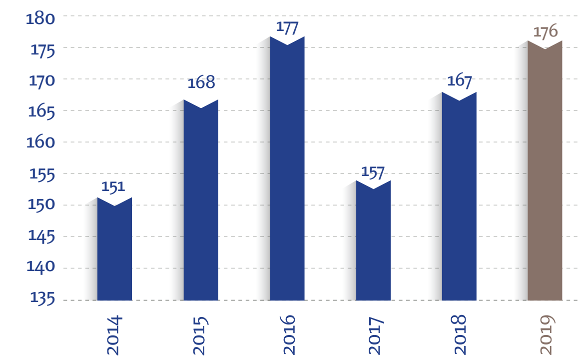
- Retained ranking as leading broker on Tadawul and Nomu - Parallel Market.
- Expanded the institutional client base, including onboarding of Qualified Foreign Investors.
- Increased stable and recurring revenue sources through expansion of Proprietary Investments, Real Estate and AlRajhi REIT portfolios.
- Achieved consistent top quartile performance in Mutual Funds with largest share.
- Grew total assets under management (AuM) by 2 percent to SAR 42.1 billion.
- Launched Al Rajhi MSCI Saudi Multi-Factor Index Fund, a passive index based Fund; and Al Rajhi Diversified Income Fund, a privately placed multi asset Fund targeting income distribution and growth.
- Acted as Joint Bookrunner and Underwriter for the landmark IPO of Saudi Aramco.
- Implemented new Digital Transformation initiatives including complete upgrade of existing online platforms, and introduction of new delivery channels to provide better user experience.
- Supported the Saudi Food Bank (Et'aam) Ramadan Initiative.

Financial Highlights (2014 - 2019)

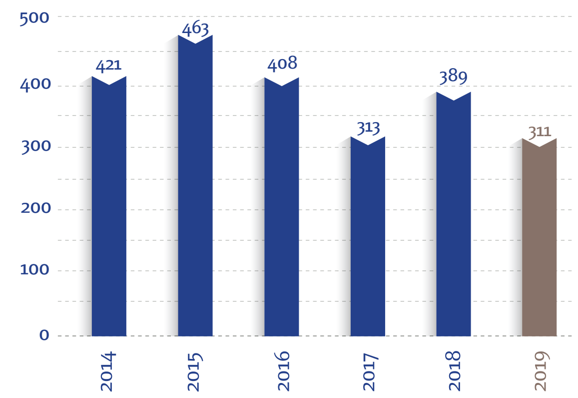
Revenue SAR Million



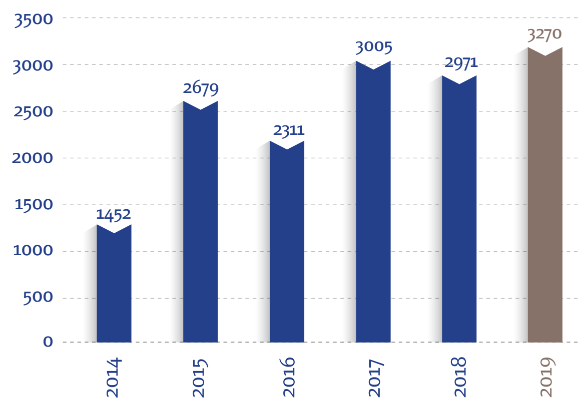
Expenses SAR Million



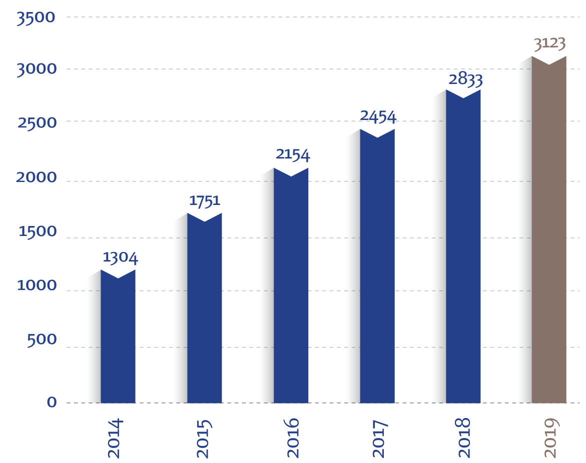
Net Profit (Before Zakat) SAR Million



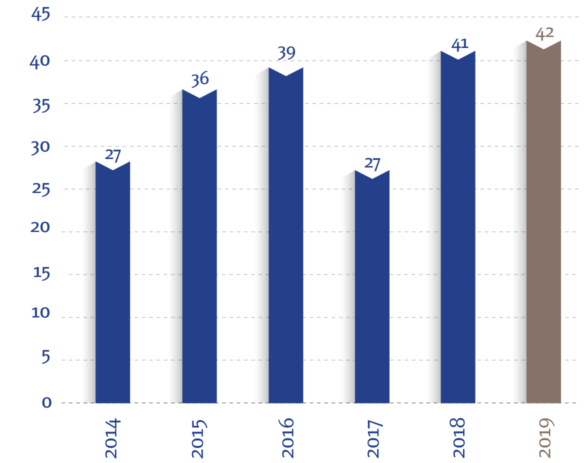
Assets SAR Million



Shareholders' Equity SAR Million



Assets under Management SAR Billion



BOARD OF DIRECTORS

Abdullah Bin Sulaiman Bin Abdulaziz Al Rajhi
Chairman / Non-Executive

Sulaiman Bin Saleh Bin Abdulaziz Al Rajhi
Non-Executive Member
Chairman of Audit Committee

Salah Bin Ali Bin Abdullah Aba'alkhail
Non-Executive Member
Chairman of Compliance Committee

Abdulaziz Bin Khaled Ali Al Ghufaily
Non-Executive Member

Faisal Bin Saud Bin Mohammed Al Saleh
Independent Member
Chairman of Nomination and Remuneration Committee

Khalid Bin Hamad Yahya Al Yahya
Independent Member

Board Of Directors' Report

The Board of Directors is pleased to present the annual report and financial statements of Al Rajhi Capital for the year ended December 31, 2019. Despite another challenging twelve months, the Company posted a resilient performance, highlighted by notable business developments and sound strategic progress.

Financial Results

Al Rajhi Capital reported a positive financial performance in 2019, albeit lower than the previous year, attributable mainly to a decline in Brokerage income. Total income for the year was SAR 487 million, while total expenses were SAR 176 million. As a result, net profit before Zakat was SAR 311 million, with a return on equity of 10 percent.

The Company maintained a strong balance sheet and high level of liquidity, with the capital adequacy ratio of 2.3 times being substantially higher than the minimum requirement of the Capital Market Authority (CMA). The key indicators of return on paid up capital and return on assets stood at 62 percent and 10 percent, respectively.

The stable financial position of Al Rajhi Capital is a testimony to its consistent strategy and resilient business model; the underlying strength of its enduring client relationships; and its diversified revenue streams.

Business Performance

The Company continued its strategic efforts to grow and diversify revenue from its core business lines. The contribution to total revenue by Brokerage was 35 percent, Asset Management 27 percent, and Proprietary Investments 37 percent.

Despite volatile trading conditions, Brokerage maintained its leading status on Tadawul with a market share of 12.5 percent. The strong performance by Asset Management, which included the launch of two new funds in 2019, resulted in total AuM (including the Al Rajhi REIT) increasing by 3 percent to SAR 44 billion.

The Proprietary Book, which comprises income-generating assets, was expanded during the year with the acquisition of a commercial retail center in Riyadh. In addition, the total number of assets under management by the Al Rajhi REIT increased from 14 to 18, through the acquisition of four new properties.

Strategic Progress

During the year, Al Rajhi Capital made good progress in implementing its five-year strategy and growth vision for 2020. This aims to build a robust and sustainable institution that strives to meet the expectations of its investors, minimizes business volatility, and generates profitable growth for shareholders. To maximize economic and market synergies, the Company's strategy is closely harmonized with the Kingdom of Saudi Arabia's Vision 2030 and National Transformation Plan 2020.

Key strategic developments in 2019 include expanding the institutional client base; and increasing stable and recurring revenue sources through expansion of the Proprietary Investments, Real Estate and Al Rajhi REIT portfolios. In addition, major digital transformation initiatives included the complete upgrade of existing online platforms, and introduction of new e-services and delivery channels.

Acknowledgments

We take this opportunity to gratefully acknowledge the continued confidence, trust and loyalty of our clients and business partners; together with the commitment and professionalism of our management and staff. We also express our appreciation to the Capital Market Authority and Tadawul for their ongoing guidance and support during the year.

SAUDI ECONOMIC OVERVIEW

Economy

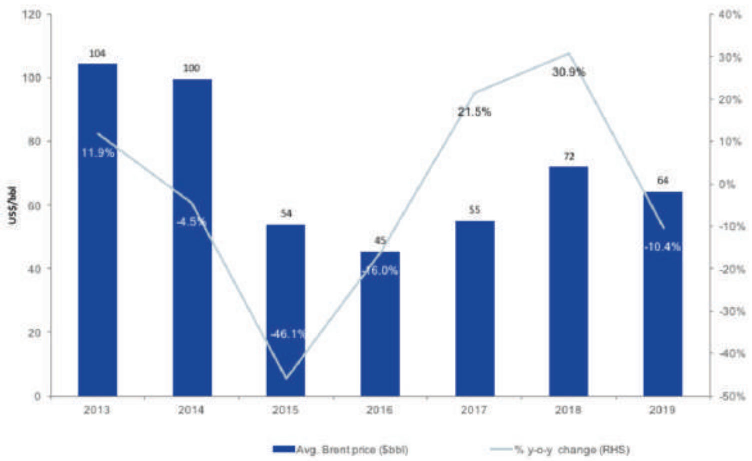
The Kingdom's GDP recorded an annual growth of 0.3 percent, compared to 2.4 percent in the previous year due to mainly external factors such as global trade tensions and lower oil prices. However, non-oil GDP increased by 3.3 percent, driven by the private sector, while economic activity in the oil sector declined by 3.6 percent in 2019 due to the OPEC agreement.

The Ministry of Finance has revised downwards its budget forecast for 2019, with expected lower revenues and expenditure. For 2020, the Government has set an optimistic target for economic growth, with expenditure of SAR 1.02 trillion and revenues of SAR 833 billion, widening the budget deficit to SAR 187 billion compared with SAR 131 billion in 2019.

Oil Price Movements

According to the US Energy Information Administration (EIA), the growth in global oil demand in 2020 is expected to decrease slightly to 1.2 million barrels per day (mbpd) from 1.4 mbpd in 2019. The average price of Brent crude in 2019 was US$ 66 compared with US$ 72 in the previous year, as a result of volatile macroeconomic and geopolitical factors.

Average Brent Oil Price 2013 - 2019



Tadawul Performance

The Tadawul All Share Index (TASI) closed at 8,389.23 points at the end of 2019, representing a gain of 7.19 percent, and placing the exchange among the top five global stock markets. Total market capitalization increased by 385.5 percent to SAR 9.02 trillion, while total value of shares traded grew marginally to SAR 880.14 billion.

The total number of transactions increased by 13.53 percent to 28.40 million, with the total number of shares traded decreasing by 13.13 percent to 33.06 billion.

There were six initial public offerings (IPOs) during 2019, including the record-breaking listing debut of Saudi Aramco. This was the largest IPO globally to date, valuing the company at over US$ 1.7 trillion. The total offered value of all IPOs reached SAR 100.12 billion, with 3.15 billion shares / units being offered to investors.

The market capitalization of all IPOs amounted to SAR 7.07 trillion, representing 78.3 percent of total market capitalization. At the end of the year, 199 stocks were listed on Tadawul.

Reform Program

During 2019, the Government made encouraging progress towards implementing its comprehensive program of fiscal, social and capital market reforms in line with the Kingdom's Vision 2030 and National Transformation Plan 2020.

Fiscal reforms include a new tax on e-cigarettes and sugary drinks; while socially-oriented reforms further loosened restrictions on women by allowing them to apply for passports and travel freely within the Kingdom and abroad. The Government also launched e-visas to visitors from 49 countries, designed to boost attendance at the growing number of sporting, entertainment and cultural events.

Following ongoing reforms by the Capital Market Authority (CMA) – including the easing of a 49 percent foreign ownership limit for strategic investors in shares of listed companies – Tadawul successfully achieved inclusion in the MSCI, FTSE Russell and S&P DJI Emerging Markets Indices, as well as the JPMorgan Emerging Markets Bond Index. These significant developments are expected to attract billions of dollars of additional foreign funds.

Other notable developments include the launch of the MSCI Tadawul 30 Index (MT30), which is a tradeable index targeting the top 30 securities of the MSCI Saudi Arabia IMI Index based on free float market capitalization; and the establishment of Securities Clearing Company (Muqassa) as an independent clearing house to strengthen the market's post-trade infrastructure. In addition, the CMA and the Debt Management Office reduced fees and commissions to encourage secondary market debt trading.

REVIEW OF OPERATIONS

Business Functions

Brokerage

Al Rajhi Capital is the largest broker in the Kingdom of Saudi Arabia, serving institutional, corporate, retail and high-net-worth individual investors. The inclusion of Tadawul in the MSCI and FTSE emerging markets indices, plus the Saudi Aramco IPO, resulted in significantly higher trading volumes during the year. Despite increased competition from foreign-owned brokers targeting Qualified Foreign Investors (QFIs), the Company maintained its leading status on Tadawul with a market share of 12.5 percent; and was also the leading broker on the Nomu - Parallel Market, with a market share of 19.83 percent.

Brokerage made excellent progress in growing its institutional client base in 2019 through onboarding additional regional and international institutions, including new QFI accounts. Supported by enhancements to the eTadawul online brokerage trading platform, the Company also started offering post-trade services through the Depository Trust & Clearing Corporation (DTCC).

Asset and Wealth Management

As one of the leading asset management businesses in the Kingdom of Saudi Arabia, Al Rajhi Capital offers a comprehensive range of innovative investment solutions across all major asset classes including equities, real estate, money market, fixed income and multi-asset.

Despite a volatile year for markets driven by weakening global growth, persistent trade tensions, mid-cycle interest rate adjustments and geo-political events, Asset Management delivered a stable long-term performance across the majority of its assets under management.

The Company's AuM grew by 2 percent to SAR 42.1 billion at the end of the year.
Driven by sustained long-term performance of the key strategies, Asset Management added a number of new discretionary institutional mandates across different asset classes and client segments.

The Company also launched two new funds during the year. The Al Rajhi MSCI Multi-Factor Index Fund, which is the first passive fund of its kind in the Kingdom, is designed to meet growing investor needs for a low-cost and efficient way of accessing the Saudi equity market from a long-term perspective. The Al Rajhi Diversified Income Fund was offered to selected investors on a private placement basis. This fully flexible income-generating multi-assets fund aims to provide an attractive long-term risk-adjusted return with moderate volatility.

Real Estate

Al Rajhi Capital is one of the largest real estate asset managers in Saudi Arabia, with total assets of over SAR 4 billion in 2019.

The Al Rajhi Real Estate Investment Traded Fund (Al Rajhi REIT), which is listed on Tadawul, enjoyed a successful and active second year of operations. The total asset value of the Fund was increased from SAR 1.7 billion to SAR 2.4 billion through the acquisition of four new real estate assets. These comprise of Al Salam NMC Specialty Hospital in Riyadh, and three educational properties from Al Khaleej Training and Education Company. As a result of this, the total number of assets under management by the Fund increased from 14 to 18 at the end of the year.

Investment Banking

Building upon the recent strategic realignment and restructuring of its Investment Banking business, Al Rajhi Capital was appointed as Joint Bookrunner and Underwriter of the listing debut of Saudi Aramco on Tadawul. This proved to be the biggest IPO to date globally, making Saudi Aramco the world's largest listed company with a valuation of over US$ 1.7 trillion. The Investment team continued to work with the Company's parent, Al Rajhi Bank, to provide the Group's corporate clients with a comprehensive range of best-in-class solutions and services.

Proprietary Investments

The Company's growing Proprietary Investments portfolio comprises income-generating assets. During the year, Al Rajhi Capital enhanced its proprietary book with the acquisition of a commercial retail center in Riyadh. This new property is intended to increase the yield and diversify risks of the overall portfolio.

Research

During 2019, the Research team worked closely with the new institutional sales desk in helping to attract new clients, including qualified foreign investors. This included a road show in New York with the Company's US partner, which played host to 10 companies from Saudi Arabia.

Publication of a pre-IPO report on Saudi Aramco's debut listing, which includes a detailed valuation analysis, also the report includes multiple notes on Tadawul's inclusion in the MSCI and FTSE emerging markets indices, and enhanced coverage of the consumer sector.

Support Functions

Finance

The focus of the Finance department in 2019 was on internal controls, revenue diversification, yield on investments and cost control; as well as prudent balance sheet and liquidity management. The department also ensured that the Company's capital adequacy ratios remained higher than the minimum levels set by the CMA. A key development during the year was completion of the second phase of required changes in business systems. These have resulted in more detailed financial reporting, including the ability to report profitability by business division and client.

Information Technology

Al Rajhi Capital continued to make significant progress during 2019 in advancing its Digital Transformation Plan. This initiative involves a complete upgrade of existing digital platforms by enhancing existing features and improving user experience; as well as the introduction of new e-services and delivery channels. Key developments include the launch of an end-to-end STP-based, fully-automated Murabaha financing solution; major enhancements to the eTadawul online brokerage trading platform such as biometric authentication and automated chain orders; and introduction of new risk profiling and goal-based investment tools on the ARC Invest asset management portal. In addition, the Company's new website was launched, featuring a sophisticated design based on SiteCore content management and digital marketing technology, which provides a rich user experience.

Operations

The Operations department further streamlined its systems and procedures in 2019 in order to improve operational and cost efficiencies; and enhance customer service quality and delivery. Key back office developments include full automation of daily data exchanges, centralization of cash management, and enhancement of IPO processes. The middle office, which handles non-sales client relations processes, was strengthened by the introduction of new controls such as additional check lists and increased validations through the Yakeen electronic system.

Human Resources and Administration

Al Rajhi Capital continued to strengthen its human capital framework during the year, while maintaining a stable headcount with a high level of Saudization. A key development involved fine tuning the organizational structure and enhancing the management team. This included the establishment of a new Chief Operating Officer role, responsible for Information Technology, Digital Channels and Operations; and incorporation of the Wealth Management team within the Asset Management division.

The Company also continued its investment in staff training and development during the year. This included a special training program for the General Securities Qualification Certificate (CME-1) issued by the Capital Market Authority; and international courses in Leadership for senior managers. Focus was also placed on developing soft skills such as relationship-building, communications and teamwork, with staff attending various courses at the Al Rajhi Bank Academy.

Marketing, Customer Service & Digital Channels

Key marketing activities in 2019 involved conducting new targeted advertising and social media campaigns for Murabaha and Asset Management; in addition to ongoing educational content postings aimed at increasing public awareness on investments. Customer service initiatives included a new digital service via the Contact Us page on the Company's redesigned website, which enables clients to create a ticket directly for enquiries, requests, and suggestions; and greater use of automated IVR technology to improve response times. These resulted in improved customer satisfaction levels, together with a continued reduction in the number of complaints.

Social Responsibility Activities

Through its corporate social responsibility (CSR) program, Al Rajhi Capital supports the sustainable economic development and social well-being of the Kingdom of Saudi Arabia. Particular focus is placed on informing and educating the public about investments and savings. Some of the key CSR activities during the year include the following:

- Collaborated with the Saudi Food Bank (Eta'am) initiative, through participation of staff in preserving, packaging and distributing excessive food at Ramadan tents, hotels and restaurants, to needy beneficiaries.
- Organised campaigns for Company staff to donate their blood.

Control Functions

Governance

Al Rajhi Capital is committed to adopting the highest standards of corporate governance, and to ensuring that all business activities are conducted in a transparent and responsible manner, with full accountability and integrity, through which to safeguard the interests of all stakeholders. Governance exercises its responsibilities through regular Compliance, Risk Management and Sharia reviews, and Internal Audit. Main activities during the year involved closing all regulatory and audit observations; and coordinating with the Company's business departments in applying new CMA-implemented regulations, as well as Tadawul requirements.

Compliance & AML

The Compliance & Anti-Money Laundering (AML) department ensures that the Company complies fully with requirements of respective CMA rules and regulations. Key Compliance initiatives during the year included enhancing regulatory reporting and communications; and reviewing and approving all changes in mutual funds' terms and conditions, in line with new international financial reporting standards (IFRS). AML developments include the update of account opening agreements and KYC forms; and timely submission of FATCA and CRS Reports for 2019.

Risk Management

The Risk Management department is responsible for identifying, measuring, controlling and monitoring key risks across the Company. Key activities in 2019 included implementation of a new module to automate approval for Murabaha margin loan applications; and successful comprehensive testing of the Company's business continuity management and cyber security processes and systems.

Legal

The Legal department proactively provides professional legal advisory and consultancy to the Company's management, and is also responsible for the safekeeping of third-party agreements. During 2019, the department focused on addressing clients' complaints in a timely and satisfactory manner, and reducing the number of litigation cases against the Company.

Sharia

The Sharia department is responsible for ensuring that the Company's strategy and operations comply fully with the provisions of Islamic Sharia. During 2019, the department completed 107 Sharia reviews, conducted 61 control visits and issued 39 decisions. In addition, through collaboration with Marketing, Customer Service and Digital Channels, the department continued to conduct a series of online campaigns for employees and the public to increase their awareness of Sharia-compliant policies and practices; and make them aware of the most important provisions for investing and trading in securities, and in all the Company's products.

Internal Audit

Internal Audit is an independent function reporting to the Board's Audit Committee and is responsible for assisting the Committee in fulfilling its oversight responsibilities by providing reasonable assurance about the adequacy of internal controls; the effectiveness of risk management and the Company's compliance with policies and procedures; as well as applicable rules and regulations and adding value to the organization operations. Internal Audit works through a co-sourcing model with a specialized consultancy firm to execute internal audits and report the results to the Audit Department for presenting to the Audit Committee.

During 2019, Internal Audit conducted a risk re-analysis exercise to evaluate Inherent Risk versus Residual Risk across the Company's operations, and conducted 10 internal audit reviews in line with the approved internal audit plan.

The audit plan is approved by the Audit Committee, which is implemented throughout the year. The Audit Committee and Management are apprised of the progress of implementation of the audit plan. Internal Audit also conducts special reviews, as and when required.

The Internal Audit Department has developed its direct communication channels with the departments and Management, to build a relationship based on transparency, mutual trust, effective communication and ongoing cooperation, with the aim of improving and adding value to departmental activities and in line with the objectives of the internal audit.

CORPORATE GOVERNANCE REVIEW

Al Rajhi Capital is committed to upholding the highest global standards of corporate governance. This entails complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organizational efficiency. The Company has Board-approved policies for risk management, compliance and internal controls, in accordance with the rules and regulations of the Capital Market Authority (CMA) of Saudi Arabia.

Board of Directors

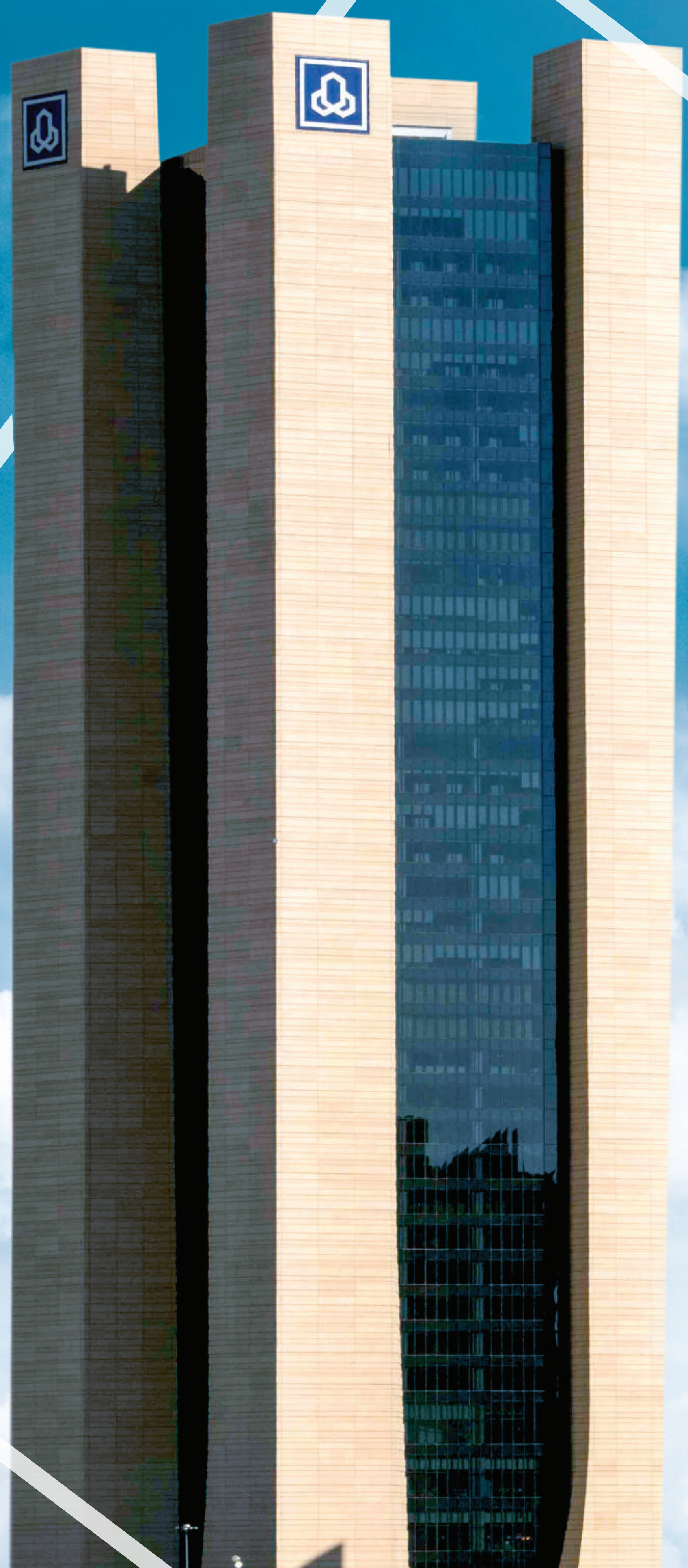
The Board of Directors is responsible for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board works as a team to provide strategic leadership to management and staff; ensures the organization's fitness for purpose; sets the values and standards for the Company; and ensures that sufficient financial and human resources are available. The Board's role and responsibilities are outlined in the Board Charter.

The Board of Directors comprises six members, of whom two are Independent Members.

Name	Position	Nationality
Abdullah Bin Sulaiman Bin Abdulaziz Al Rajhi	Chairman/Non-Executive	Saudi
Sulaiman Bin Saleh Bin Abdulaziz Al Rajhi	Non-Executive Member	Saudi
Salah Bin Ali Bin Abdullah Aba Al Khail	Non-Executive Member	Saudi
Abdulaziz Bin Khaled Ali Al Ghufaily	Non-Executive Member	Saudi
Faisal Bin Saud Bin Mohammed Al Saleh	Independent Member	Saudi
Khalid Bin Hamad Bin Yahya Al Yahya	Independent Member	Saudi

The Board held four meetings in 2019.

Name	1st meeting 10/02/2019	2nd meeting 02/04/2019	3rd meeting 24/10/2019	4th meeting 19/12/2019
Abdullah Bin Sulaiman Bin Abdulaziz Al Rajhi	Y	Y	Y	Y
Sulaiman Bin Saleh Bin Abdulaziz Al Rajhi	Y	Y	Y	Y
Salah Bin Ali Bin Abdullah Aba Al Khail	Y	Y	Y	Y
Abdulaziz Bin Khaled Ali Al Ghufaily	Y	Y	Y	Y
Faisal Bin Saud Bin Mohammed Al Saleh	Y	Y	Y	Y
Khalid Bin Hamad Bin Yahya Al Yahya	N	Y	Y	Y



Membership of Other Boards

In line with CMA requirements, Board Members who hold membership positions on the boards of other Saudi Arabian and non-Saudi based companies are detailed below:

01 Abdullah Bin Sulaiman Bin Abdulaziz Al Rajhi

- Al Rajhi Banking & Investment Corporation (Al Rajhi Bank)
Chairman / Non-Executive

- Al Rajhi Cooperative Insurance Co. (Al Rajhi Takaful)
Chairman / Non-Executive

- Al Rajhi Holding Group
Chairman/ Non-Executive

- Farabi Petrochemical Co.
Chairman / Non-Executive

- Farabi Investment Co.
Chairman / Non-Executive

- Farabi Yanbu Petrochemicals Co.
Chairman / Non-Executive

- Farabi Downstream Co.
Chairman / Non-Executive

- Al Ajial Holding Co.
Chairman / Non-Executive

- Fursan Travel
Chairman / Non-Executive

- Saudi Company for Manufacturing Carpet Materials
Chairman / Non-Executive

- Factory of Jubail Saudi Company for Geotextile Solutions
Chairman / Non-Executive

- Green Vision Co. for Artificial Grass
Board Member / Non-Executive

- Indoor and Outdoor Geotextile Solutions Holding Co.
Chairman / Non-Executive

02 Sulaiman Bin Saleh Bin Abdulaziz Al Rajhi

- Al Rajhi & Almesfer Agriculture Company LLC
Non-Executive

- Hashem Contracting and Trading Company
Non-Executive

- Saleh Abdul Aziz Al Rajhi Company LLC
Non-Executive

03 Salah Bin Ali Bin Abdullah Aba Al Khail

- Al Rajhi Banking & Investment Corporation (Al Rajhi Bank)
Non-Executive

- National Veterinary Co.
Chairman

04 Abdulaziz Bin Khaled Ali Al Ghufaily

- Al Rajhi Banking & Investment Corporation (Al Rajhi Bank)
Non-Executive

- Savola Group
Non-Executive

- Savola Foods
Non-Executive

05 Faisal Bin Saud Bin Mohammed Al Saleh

- Arabian Plastic Manufacturing Co. LLC
Executive

- Saudi Plastic Products Co. LLC
Executive

- Green Kingdom Industries Co. LLC
Non-Executive

06 Khalid Bin Hamad Bin Yahya Al Yahya

- MetLife AIG ANB Cooperative Insurance C.
Non-Executive

Board Committees

The Board of Directors exercises its functions through three Board Committees.

Nomination and Remuneration Committee

The Committee's responsibilities include the following:

- Recommend nominations to the Board membership or Board Committees' membership.
- Fill vacant positions in accordance with the approved policies and standards.
- Review the membership requirements of suitable skilled personnel on an annual basis.
- Review the Board's structure, point out weaknesses and strengths, and report its recommendations.
- Ensure, on an annual basis, the independence of Independent Board Members, and the non-existence of any conflict of interests in the event that a Member holds a board membership in another company.
- Set clear policies for the remuneration of Board Members and Senior Executives, and submit an annual proposal to the Board covering the annual budget, and remunerations and incentives (bonuses) for Senior Executives.

The Committee comprises three members and held three meetings during 2019.

Name	Position	1st meeting 10/02/2019	2nd meeting 24/10/2019	3rd meeting 19/12/2019
Faisal Bin Saud Bin Mohammed Al Saleh	Independent Board Member/ Committee Chairman	Y	Y	Y
Abdulaziz Bin Khaled Ali Al Ghufaily	Board Member/ Committee Member	Y	Y	Y
Khalid Bin Hamad Bin Yahya Al Yahya	Board Member/ Committee Member	N	Y	Y

Audit Committee

It is a communication channel between the Board of Directors and the external and internal auditor, and it has a supervisory role over the Company's operations. This is to provide a vision of the soundness of financial reports and internal and external audit reports, compliance with ethical rules and governance arrangements, and it is a useful tool in monitoring the Company's performance and facilitating its activity. The Committee plays an essential and important role in assisting the Board of Directors to fulfil its supervisory duties to achieve the requirements of governance and oversight of the performance of the Company›s management, most notable are the following:

- Integrity of Company's financial statements.
- Effectiveness of internal control system.
- Independence of internal audit and external auditors.
- Review of the internal audit activity performance related to annual plan.
- Recommend to the board the appointment, dismissal and remuneration of the Internal and external auditors and approve any activity that is beyond the scope of their work.
- Submit the Audit Committee annual report to the Board on the effectiveness of the internal control procedures of the Company and the opinion of the Audit Committee with respect to the adequacy of the Company's internal control system.

The Committee comprises three members and held four meetings during 2019.

Name	Position	1st meeting 05/02/2019	2nd meeting 28/03/2019	3rd meeting 20/10/2019	4th meeting 16/12/2019
Sulaiman Bin Saleh Bin Abdul Aziz Al Rajhi	Board Member/ Committee Chairman	Y	Y	Y	Y
Abdulaziz Aba Al Khail	Independent Member	Y	Y	Y	Y
Abdulaziz Al Shushan	Chief Internal Auditor at ARB/ Member	Y	Y	Y	Y

Compliance Committee

The Compliance Committee assists the Board with the following:

- Ensure that the Company is carrying out its business in compliance with CMA provisions and regulations.
- Review the Compliance and Anti-Money Laundering report.
- Monitor and assess the performance of the Compliance Department.
- Review all compliance risks that might have an adverse effect on the Company's financial position or reputation.
- Submit quarterly and annual reports on its functions.

The Committee comprises five members and held four meetings during 2019.

Name	Position	1st meeting 10/02/2019	2nd meeting 27/03/2019	3rd meeting 17/10/2019	4th meeting 12/12/2019
Salah bin Ali Aba' Al Khail	Chairman of the Committee / Board Member ARC	Y	Y	Y	Y
Gaurav Shah	Committee Member / CEO	Y	Y	Y	Y
Mohammed Al Monajam	Committee Member / CCO & AMLRO	Y	Y	Y	Y
Abdullah Al Nami	Committee Member / Head of Compliance - ARB	Y	N*	Y	Y
Ayman Al Aydi	Committee Member/ Senior Internal Auditor	Y	Y	Y	Y

*Mr. Riad I. Amawi, Compliance from ARB, attended on behalf of Mr. Abdullah Al Nami

Senior Management

The Senior Management team is core to the Company's overall decision-making structure; and plays a pivotal role in the planning, policy formulation, governance, reporting and decision-making processes. Led by the Chief Executive Officer, the team is responsible for the day-to-day operations of Al Rajhi Capital, in line with the goals and authority set by the Board of Directors.

Name	Position
Gaurav Shah	Chief Executive Officer
AbdulAziz Ali Al Sabt	Equities and Real Estate Director
Chahir Hosni	Head of Brokerage
Megren Saud Al Kulaibi	Head of Asset Management
Ameen Wasfi Al Saadi	Head of Investment Banking
Jithesh Kallinth Gopi*	Director-Corporate Development & Proprietary Investments
Mazen Turky Al Sudairi	Head of Research
Ahmed Abdulrahman Al Mohsen	Chief Financial Officer
Tarik Ibrahim Al Sugair	Governance Director
Mohammed Salem Al Munajam	CCO & AMLRO
Waleed Abdulrahman Al Thenayan	HR & Administration Director
Kader Ali Sultan	Chief Information Officer
Ayman Al Aydi	Senior Internal Auditor

*Resigned on January 31, 2019

Remuneration

The Company pays its Non-Executive Board Directors a fixed remuneration and sitting fees for attending Board and Board Committee meetings. In addition, it pays the salaries and remunerations of Senior Executives in accordance with their respective employment contracts.

Details of the expenses, remuneration and salaries paid to the Board members and five of the senior executives, including the CEO and CFO, during 2019 are as follows:

- Total remuneration paid to the Board Directors was SAR 946,000 excluding VAT.
- Total remuneration and rewards paid to five Senior Executives who received the highest remuneration and rewards from the Company, including the CEO and the CFO, amounted to SAR 14,917,676.

	Executive Board Members	Non-Executive Members/ Independent Board Members	Five Senior Executives who received the highest remuneration and rewards from the Company including the CEO and CFO
Salaries and Compensation			5,039,400
Allowances		946,000	2,578,856
Annual and periodic bonuses			7,299,420
Incentive Plan			
Commissions			
Any other Yearly or Monthly Benefits			
Total		**946,000**	**14,917,676**

Governance Structure

Our governance standards underpin our regulatory responsibilities. Our reputation and integrity are key to our success, and we adhere to the highest globally-recognized professional and ethical standards. Al Rajhi Capital complies with the principles of transparency, equality, accountability and objectivity, which constitute the main components of good corporate governance standards. They are also at the heart of the Company's business practice, and facilitate the establishment and functioning of effective controls and risk management, and timely compliance with regulatory norms. There are written rules and procedures for preventing conflict of interests and the use of internal information, for preserving confidentiality, preventing money laundering and financing of terrorism, and financial malpractice.

Our committees are each chaired by a Board Member or a Management Committee member to ensure we deliver against our commitments and conduct our business to the highest standards. Our committees cover every aspect of the Company's activities: strategy, new business investments, operations and information technology, recruitment, risk management and compliance. They are integral to our principle of governance and our commitment to transparency.

In 2019, there were a number of notable improvements to strengthen the existing corporate governance structures approved by the Board, which included:

- Review and update of the policies and procedures for each department, with subsequent approval by the Board of Directors.
- Further strengthening the approach towards any suspected market manipulation with zero-tolerance, and immediately restricting market access for such conduct.
- Risk management reports tabled to the Board on a quarterly basis.
- AML reports tabled to the Board on a yearly basis.
- Board of Directors' annual report for 2018 published as per CMA guidelines.
- ICAAP report as part of Pillar II requirements of prudential rules was approved by the Board and submitted to the CMA during the second quarter of 2019.
- Pillar III disclosure report was approved by the Board and submitted to CMA, and posted on the Company's website during the first quarter of 2019.
- With the approval of Board, a process for measuring the performance of the Board and its Committees was put in place in 2019.

Fines and Penalties Imposed on the Company

There were no fines or penalties imposed on the Company in 2019.

Major Risks in the Business

Credit Risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting limits for individual customers and by monitoring these limits.

With respect to financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparties, with the maximum exposure equal to the carrying amount of these instruments. All of the Company's counterparties are subject to acceptance and fixation of exposure limit by the Risk Management department. With respect to Murabaha contract receivables, the outstanding balance is secured by shares and other tangible assets available in the counterparties' portfolios which are under the custody of the Company.

The Credit Risk for direct investments in Real Estate can potentially arise from tenants' inability to pay rent. This risk is mitigated by conducting an in-depth credit assessment of the tenants, and undertaking all possible duties of care to ensure that only tenants with the highest credit profiles backed up by stable and established business models producing consistent cash flows, are selected.

Market Risk

Market risk is the risk of losses in on- and off-balance sheet positions arising from movements in market rates or prices such as profits rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

The Company's investments in REIT and Equity Funds are subjected to this risk. It manages this risk by carefully selecting the REITs and Funds for investment through a robust process where quality of the investment is thoroughly assessed.

The Company's Murabaha contracts receivables are exposed to market risk arising from the fluctuation in prices of the shares which are provided to the Company as collateral for the facilities. The Company has adequate policies, procedures and monitoring mechanisms in place to effectively control this risk.

Impairment Risk

Impairment risk is the risk of an asset's value declining to lower than its book value, which warrants booking impairment charge to align the asset's value in the financial books with its actual value. The Company's investments in Real Estate are subjected to this risk as their values could go down on account of a slowdown in the economy in general or at a local level, where the assets are located.

The Company manages this risk by implementing several controls. Before a property is purchased, the Company undertakes a comprehensive evaluation that takes into consideration the rental income, location, credit worthiness of the tenant, lease covenants, comparable market transactions, future capex requirements, and different valuation approaches including income valuation and replacement cost valuation. The Company ensures that all the properties purchased by it are properly managed through maintenance of the original design, proper upkeep of the property, and adequate fire protection measures.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Operational risk of the Company is managed through robust incident management, root cause analysis, risk control self-assessments, key risk indicators, business continuity planning and disaster recovery planning.

Murabaha Profit Rate Risk

Murabaha profit rate risk is the risk that the profit rate charged is not commensurate with the financing cost due to changes in the market commission rate. The Company may be subjected to Murabaha profit rate risk on its commission-bearing assets, including Murabaha contracts receivables.

The Company manages this risk by periodically aligning the profit rates with interbank borrowing rates, factoring trading commission in the client's profitability so that overall profitability of the Murabaha book is not adversely affected. Further, for large exposures, the Company manages this risk by matching the tenure and financing terms between the assets and the liabilities.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Al Rajhi Capital aims to maintain a liquidity coverage ratio in excess of 110 percent at all times. Deposits are generally placed for short periods to manage the Company's liquidity requirements. All liabilities on the Company's balance sheet, other than end of service benefits, are contractually payable on a current basis. Liquidity risk at an investment fund level is managed through appropriate liquidity limits and monitoring for each fund.

Reputational Risk

Reputational risk refers to the potential adverse effects, which can arise from the Company's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, and negative/adverse publicity.

The Company proactively manages its reputational risk by conducting a detailed analysis of trends which may lead to threats to its brand value. It has a robust incident management process in place through which it mitigates issues arising out of any disruption causing reputational damage.

Compliance Risk

Compliance risk is the risk of Company not adhering to the laws, regulations, guidelines and specifications related to its business and operating environment. Non-adherence to regulatory guidelines may result in disciplinary actions/penalties.

The Company has required Compliance policy and procedures approved by Compliance Committee and Board of Directors. The Company's Compliance department has developed a risk-based approach to support supervision of regulatory compliance processes.

Company Subsidiaries

Company Name	Paid up capital (SAR)	ARC ownership percentage	Purpose	Nationality	Head Office location
Saudi Real Estate Enrichment Company	500,000	50%	Carries out activities of a real estate fund in KSA	Saudi	Riyadh
Privileged Warehouses Company 3	100,000	95%	Carries out activities of a real estate fund in KSA	Saudi	Riyadh

Note: ARC also have other subsidiaries on behalf of third party funds to provide custody services, where ARC does not have any beneficial interest in these subsidiaries. One of ARC›s investment is held through an SPV owned by the Company. ARC has transferred the ownership of an SPV holding clients assets to an independent custodian in 2018 as required by the applicable regulations.

Loans

The Company did not have any loan as at December 31, 2019.

Conflict of Interest

Other than those illustrated in the table below and stated in Note 21 of the Financial Statements regarding related party transactions, the Company did not, nor has it entered into, any contract in which any member of the Board, the Chief Executive Officer, the Executives, or any of their associates, has or had any material interest that has not been approved.

Related party (Transactions)	Nature of Transaction	For the year ended 31 December 2019	Contract Duration	Type of Relation	Preferential Terms
Al Rajhi Banking and Investment Corporation, the Parent	IT support expenses	3,016,777	one year	Parent Company/ board membership	No
	Rental of office space	1,799,145	one year	Parent Company/ board membership	No
	Fee for transfers	(126,000)	one year	Parent Company/ board membership	No
	Withholding tax	1,033,190	undefined	Parent Company/ board membership	No
	IPO service fee receivable from the Parent	2,383,204	undefined	Parent Company/ board membership	No
	Others	22,053	undefined	Parent Company/ board membership	No
Board of directors members	Remunerations	946,000	3 years	Board membership	No
	Board meeting expenses	22,053	undefined	Board membership	No
Al Rajhi Company for Management Services, a fellow subsidiary	Outsourcing of staff	456,223	one year	A fellow subsidiary	No
Al Rajhi Takaful Agency Company, a fellow subsidiary	Insurance	705,221	one year	A fellow subsidiary	No
Al Fursan, common directorship	Business travel and air tickets	27,087	one year	Common directorship	No
Key management personnel	Employee benefit obligation	528,830	undefined	Key management	No
	Salaries	5,039,400	undefined	Key management	No
	Allowances	2,578,856	undefined	Key management	No
	Annual and periodic bonuses	7,299,420	undefined	Key management	No
All Funds managed by the Company	Income from asset management services	84,176,160	undefined	Funds managed by the Company	No
Al Rajhi REIT, a fund managed by the Company	Advance to REIT	30,000,000	one year	Al Rajhi REIT, a fund managed by the Company	No
	Expenses incurred on behalf of REIT	6,669,075	one year	Al Rajhi REIT, a fund managed by the Company	No

Annual Audit Assessment of the Effectiveness of the Company's Internal Control Procedures

Internal Audit is an independent function within Al Rajhi Capital, and reports directly to the Audit Committee. It provides Management with reasonable assurance about the adequacy of internal controls; the effectiveness of risk management and the company's compliance with policies and procedures; as well as applicable rules and regulations. In order to achieve this, risk-based auditing methodology is followed by reviewing the audit universe of the Company and adjusting the audit plan based on that.

All audit reviews are presented to the Audit Committee in the form of Audit Reports. The Internal Audit department obtains periodic status updates from each department on the implementation of agreed Management actions. The audit committee ensures that the audit recommendations and results of the audit reviews and any corrective measures are implemented within the timelines agreed with the relevant department.

The Company has appointed external consultants to assist with the development, review and execution of a risk-based internal audit plan, which was developed by conducting an entity-wide risk assessment.

Based on the reports issued during 2019, there was no fundamental weakness identified in the internal systems and control of the Company. It is viewed that Al Rajhi Capital has a sound and effective system of internal controls, in both design and implementation. Nonetheless, Management continuously endeavours to enhance and further strengthen the internal control system of Al Rajhi Capital.

FINANCIAL STATEMENTS

Al Rajhi Capital Company (A Saudi closed joint stock company)
Financial Statements for the year ended December 31,2019

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

KPMG

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Certified Public Accountants
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Licence No. 46/11/323 issued 11/3/1992

Independent auditor's report

To the Shareholder of Al Rajhi Capital Company

Opinion

We have audited the financial statements of Al Rajhi Capital Company (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, the applicable requirements of the Regulations for Companies, the Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

KPMG

Independent auditor's report

To the Shareholder of Al Rajhi Capital Company (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Al Rajhi Capital Company (the "Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Dr. Abdullah Hamad Al Fozan
License No: 348

Al Riyadh: 7 Rajab 1441H
Corresponding to: 2 March 2020

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Saudi Arabian Riyals)

	Notes	31 December 2019	31 December 2018
Assets			
Property and equipment	4	**134,247**	178,738
Intangible assets	5	**19,704,672**	14,662,363
Investment properties	6	**1,383,848,561**	1,297,590,446
Investments	7	**467,962,801**	448,692,478
Employee loan	8	**–**	1,758,000
Non-current assets		**1,871,650,281**	1,762,882,025
Investments	7	**462,657,394**	713,541,189
Murabaha receivables	10	**811,748,697**	383,977,951
Accrued income	11	**26,882,256**	19,348,880
Advances, prepayments and other receivables	12	**62,510,136**	32,024,244
Employee loan	8	**1,758,000**	--
Cash and cash equivalents	9	**33,086,783**	59,194,115
Current assets		**1,398,643,266**	1,208,086,379
Total assets		**3,270,293,547**	2,970,968,404
Equity and liabilities			
Equity			
Share capital	17	**500,000,000**	500,000,000
Statutory reserve	3.8	**250,000,000**	250,000,000
Retained earnings		**2,372,679,890**	2,082,725,338
Total equity		**3,122,679,890**	2,832,725,338
Liabilities			
Employee benefits	13	**40,382,310**	40,578,870
Non-current liabilities		**40,382,310**	40,578,870
Other payables and accruals	14	**78,959,415**	77,378,510
Due to a related party - Zakat payable	15	**20,941,786**	10,556,714
Provisions	16	**7,330,146**	9,728,972
Current liabilities		**107,231,347**	97,664,196
Total liabilities		**147,613,657**	138,243,066
Total equity and liabilities		**3,270,293,547**	2,970,968,404

The accompanying notes from 1 to 26 form an integral part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Notes	For the year ended 31 December 2019	2018
Operating income			
Income from brokerage services, net		**143,746,439**	284,634,497
Income from asset management services		**131,716,091**	114,090,306
Rental income on investment properties	*6*	**104,568,066**	99,956,741
Gain on investments, net		**36,262,067**	1,273,806
Special commission income on Murabaha receivables		**24,381,602**	24,530,564
Special commission income on short-term placements		**4,656,544**	3,598,139
Dividend income		**35,064,728**	33,492,121
Other operating income		**6,380,213**	3,375,298
Special commission expense		**--**	(8,250,000)
Total operating income		**486,775,750**	556,701,472
Operating expenses			
Salaries and employee related benefits		**(117,817,988)**	(115,847,511)
Depreciation	*4,6*	**(17,752,386)**	(17,071,959)
Amortisation	*5*	**(4,761,071)**	(5,112,774)
Rental expense		**(5,244,394)**	(4,145,934)
Other general and administrative expenses	*18*	**(22,734,697)**	(20,782,517)
Promotion and marketing expenses		**(267,787)**	(1,132,116)
Credit impairment losses	*10.1, 12.1*	**(7,301,089)**	(3,314,107)
Total operating expenses		**(175,879,412)**	(167,406,918)
Operating profit		**310,896,338**	389,294,554
Zakat charge	*15.1*	**(20,941,786)**	(10,556,714)
Profit for the year		**289,954,552**	378,737,840
Other comprehensive income for the year		**--**	--
Total comprehensive income for the year		**289,954,552**	378,737,840

The accompanying notes from 1 to 26 form an integral part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2019	**500,000,000**	**250,000,000**	**2,082,725,338**	**2,832,725,338**
Total comprehensive income				
Profit for the year	--	--	**289,954,552**	**289,954,552**
Other comprehensive income for the year	--	--	--	--
Total comprehensive income for the year	--	--	**289,954,552**	**289,954,552**
Balance as at 31 December 2019	**500,000,000**	**250,000,000**	**2,372,679,890**	**3,122,679,890**

	Share Capital	Statutory reserve	Retained earnings	Total
Balance as at 1 January 2018	500,000,000	250,000,000	1,703,987,498	2,453,987,498
Total comprehensive income				
Profit for the year	--	--	378,737,840	378,737,840
Other comprehensive income for the year	--	--	--	--
Total comprehensive income for the year	--	--	378,737,840	378,737,840
Balance as at 31 December 2018	500,000,000	250,000,000	2,082,725,338	2,832,725,338

The accompanying notes from 1 to 26 form an integral part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Notes	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Operating profit		**310,896,338**	389,294,554
Adjustments for:			
Depreciation	4,6	**17,752,386**	17,071,959
Amortisation	5	**4,761,071**	5,112,774
Special commission income on Murabaha receivables		**(24,381,602)**	(24,530,564)
Special commission income on short-term placements		**(4,656,544)**	(3,598,139)
Special commission expense		**--**	8,250,000
Gain on investments, net		**(36,262,067)**	(1,273,806)
Changes in:			
Murabaha receivables		**(403,389,143)**	65,661,782
Accrued income		**(7,533,376)**	(5,498,413)
Employee loan		**--**	4,710,750
Advances, prepayments and other receivables		**(30,485,893)**	84,959,747
Other payables and accruals		**1,580,905**	(14,072,269)
Employee benefits		**(196,560)**	2,337,567
Provisions		**(2,398,826)**	(1,000,000)
Zakat paid	15.1	**(10,556,714)**	(7,836,551)
Net cash (used in) / generated from operating activities		**(184,870,025)**	519,589,391
Cash flows from investing activities			
Acquisition of property and equipment	4	**(614,434)**	(84,844)
Acquisition of intangible assets	5	**(9,803,380)**	(5,018,723)
Acquisition of investment property	6	**(103,478,965)**	(446,652)
Acquisition of investments		**(741,000,000)**	(1,059,989,099)
Proceeds from sale of investments		**1,013,532,083**	936,913,426
Proceeds from sale of property and equipment		**127,389**	--
Net cash generated from / (used in) investing activities		**158,762,693**	(128,625,892)
Cash flows from financing activities			
Repayment of borrowing		**--**	(400,000,000)
Financial charges paid		**--**	(10,950,000)
Net cash used in financing activities		**--**	(410,950,000)
Decrease in cash and cash equivalents		**(26,107,332)**	(19,986,501)
Cash and cash equivalents at the beginning of the year		**59,194,115**	79,180,616
Cash and cash equivalents at the end of the year	9	**33,086,783**	59,194,115

The accompanying notes from 1 to 26 form an integral part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(Saudi Arabian Riyals)

1 GENERAL INFORMATION

Al Rajhi Capital Company (the "Company" or "ARC") is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010241681 dated 1 Dhul Hijjah 1428H (corresponding to 11 December 2007).

The objectives of the Company are to provide a range of diverse, innovative Sharia-compliant financial products and services.

The registered address of the Company is as follows:

Al Rajhi Capital, Head Office
8467 King Fahad Road – Al Muruj Dist.
Unit No 1
Riyadh 12263 - 2743
Kingdom of Saudi Arabia

2 BASIS OF PREPARATION

a) Statement of compliance

The accompanying financial statements presenting the operations conducted by the Company for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organisation for Certified Public Accountants ("SOCPA").

b) Basis of measurement

These financial statements have been prepared on a going concern basis under historical cost convention except for investments which are carried at fair value, and employee benefits which are measured using actuarial techniques at present value. These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the presentation and functional currency of the Company. All amounts have been rounded to the nearest SR, unless otherwise stated.

c) Critical accounting estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

- Measurement of the expected credit loss allowance ("ECL")

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of counter-parties defaulting and the resulting losses). Explanation of the input, assumptions and estimation techniques used in measuring ECL on Murabaha receivables and rental receivables are further detailed in note 3.2.

2 BASIS OF PREPARATION (CONTINUED)

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;
(ii) Choosing appropriate models and assumptions for the measurement of ECL;
(iii) Establishing the number and relative weights of forward-looking scenarios for each type of product/market and the associated ECL; and
(iv) Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgments and estimates by the Company in respect of the above is set out in note 3.2.

The loss allowance recognised in the period is impacted by a variety of factors as described below:

(i) Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period and the consequent ("step up" or "step down") between 12-month and Lifetime ECL;
(ii) Additional allowances for new financial instruments recognised during the period as well as releases for financial instruments de-recognised in the period;
(iii) Impact on the measurement of ECL due to changes in Probability of Default ("PD"), Exposure At Default ("EAD") and Loss Given Default ("LGD") in the period arising from regular refreshing of inputs of models;
(iv) Impacts on the measurement of ECL due to changes made to models and assumptions;
(v) Unwinding of discount within ECL due to the passage of time as ECL is measured on a present value basis;
(vi) Write-offs of allowances related to assets that were written-off during the period.

- Fair value measurement

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 to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by ARC.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

ARC uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2 BASIS OF PREPARATION (CONTINUED)

c) Critical accounting estimates and judgments (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis using level 1 or level 2 indicators, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The Company applies the fair value of a financial instrument on initial recognition as normally the transaction price i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in the statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

- Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

- Employee benefits

Defined benefit plans

ARC operates a defined benefit plan under the Saudi Arabian Law applicable based on employees' accumulated periods of service at the date of the statement of financial position. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method as per IAS 19 *Employee benefits*.

2 BASIS OF PREPARATION (CONTINUED)

c) Critical accounting estimates and judgments (continued)

The cost of providing benefits under ARC's defined benefit plan is determined using the projected unit credit method by a professionally qualified actuary and arrived at using actuarial assumptions based on market expectations at the date of the statement of financial position. These valuations attribute entitlement benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations). Re-measurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through the statement of other comprehensive income in the period in which these occur. Re-measurements are not reclassified to the statement of profit or loss in subsequent periods.

Past service costs are recognized in the statement of profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that ARC recognizes restructuring-related costs

Financing cost is calculated by applying the discount rate to the net defined benefit liability or asset.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss is recognized in the statement of profit or loss during the period in which the settlement or curtailment occurs.

The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

- Write-off of financial assets
  ARC writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the ARC's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering full. Management assesses various indicators of funds not being recoverable before these are written-off. Any conclusion reached on existence of those indicators and how these are financially impacting the Company is sensitive to the degree of judgments involved in interpreting those indicators.

- Useful lives and residual values of property and equipment, intangible assets and investment property

  Management determines the estimated useful lives and residual values of its property and equipment, intangible assets and investment properties. The estimate is determined after considering the expected usage of the asset or physical wear and tear. The Company periodically reviews estimated useful lives, residual values and depreciation / amortisation methods to ensure that the method and periods of depreciation / amortisation are consistent with the expected pattern of economic benefits from those assets.

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2 BASIS OF PREPARATION (CONTINUED)

- Going concern
  These financial statements have been prepared on a going concern basis. The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as going concern.

d) New standards or amendments issued and effective

The Company has adopted the following new standards, effective for annual periods beginning on or after 1 January 2019:

1) IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The Company has a short-term lease for which it has elected to apply the exemption requirements as per IFRS 16, and accordingly, lease payments associated with the lease are recognised as an expense on a straight-line basis over the lease term. Therefore, the impact of adoption of IFRS 16 is not material to the Company's financial statements.

2) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The impact of adoption of these amendments is not material to the Company's financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise indicated.

3.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash at banks only, which are available to the Company without any restriction.

3.2 Financial instruments

a) Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Financial Asset at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Asset at FVOCI
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

The Company does not have any debt or equity instrument classified at FVOCI and thus this does not apply to the Company.

Financial Asset at FVTPL
All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

a) Classification of financial assets (continued)

Business model assessment
Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

b) Classification of financial liabilities

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

c) Derecognition

Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. The Company does not have any equity instrument classified as FVOCI, and thus this does not apply to the Company.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

d) Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses.

The Company does not have any financial assets modified during the period and thus this does not apply to the Company.

e) Impairment
The Company recognizes loss allowances for expected credit losses ("ECL") on its Murabaha receivables and Rental receivables.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

The Company does not have any financial assets restructured during the period, and thus this does not apply to the Company.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a Murabaha receivable or Rental receivable by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A Murabaha receivable or Rental receivable that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position
Impairment allowances for ECL of Murabaha receivables and rental receivables presented in statement of financial position as a deduction of gross carrying amount of the assets.

Write-off
Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Impairment of non-financial assets

ARC assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, ARC estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit ("CGU") fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, ARC estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

3.3 Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

	Years
Leasehold improvements	Period of lease or 3 years, whichever is shorter
Furniture, fixtures and office equipment	3 - 5 years
Motor vehicles	3 years
Computers hardware	3 years

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

Normal repair and maintenance are charged to the statement of profit or loss as and when incurred.

Work in progress is stated at cost incurred until the asset is ready for its intended use, thereafter, this cost is capitalized on the related assets. This includes the cost of contractors, materials, services and capital advances. Work in progress is not depreciated.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful life of 3 to 7 years.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the operating expenses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

3.5 Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation, net of impairment losses (if any). Depreciation is charged to the statement of profit or loss, using straight-line method to allocate the costs of the related assets to their residual values over their estimated useful lives which ranges from 30-35 years. The Company follows cost model of IAS 40 for subsequent measurement of investment properties. For the purpose of computing impairment losses, at each reporting period an evaluation is conducted of investment properties at fair value, which reflects market conditions at the reporting date. Any impairment loss identified is recorded in the statement of profit or loss. Fair values are determined based on an annual evaluation performed by an accredited external, independent values, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition.

3.6 Other payables and accruals

Other payables and accruals represents amounts to be paid for goods and services received, whether or not billed to the Company.

3.7 Zakat and withholding tax

The Company does not file a separate Zakat to the General Authority of Zakat and Tax ("GAZT"), and instead applies the group allocation approach, as Al Rajhi Banking and Investment Corporation (the "Parent") submits a consolidated / single zakat return for the entire group based on its consolidated zakat base and settles zakat liability accordingly. The Company records the Zakat charge based on the allocation by the Parent in a systematic manner.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law, if any.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Statutory reserve

As required by the Company's By-laws and the Saudi Arabian Regulations for Companies, 10% of net income for the year is transferred to statutory reserve. The Company may resolve to discontinue such transfer when the reserve totals 30% of its share capital. This reserve is not available for distribution. Since the statutory reserve of the Company has already reached to 50% of its share capital, therefore, no transfer has been made to the statutory reserve during the year (year ended 31 December 2018: Nil).

3.9 Revenue – contracts with customers

The Company recognises revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue	The Company recognises revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Identify the contracts with customers

The Company carefully evaluates the terms and conditions of the contracts with its customers because revenue is recognised only when performance obligations in contracts with customers are satisfied. A change in the scope or price (or both) of a contract is considered as a contract modification and the Company determines whether this creates a new contract or whether it will be accounted for as part of the existing contract.

Identify the performance obligations under the contract

Once the Company has identified the contract with a customer, it evaluates the contractual terms and its customary business practices to identify all the promised services within the contract and determine which of those promised services (or bundles of promised services) will be treated as separate performance obligations.

The Company assess the services promised in a contract with a customer and identifies as a performance obligation either a:

a) service that is distinct; or
b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e. each distinct service is satisfied over the time and the same method is used to measure progress).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Revenue – contracts with customers (continued)

Identify the performance obligations under the contract (continued)

A service (or bundle of services) is distinct if the customer can benefit from the service on its own or together with other readily available resources (i.e., the service is capable of being distinct) and the service is separately identifiable from other promises in the contract (i.e., the service is distinct within the context of the contract).

The Company provides management services to its customers which are generally provided continuously over the contract period. Accordingly, the services in these contracts generally represent a single performance obligation. Fees charged for managing mutual funds are recognised as revenue rateably as the services are provided.

Determine the transaction price

The Company determines transaction price as the amount which it expects to be entitled. It includes an estimate of any variable consideration, the effect of a significant financing component (i.e., the time value of money), the fair value of any non-cash consideration and the effect of any consideration paid or payable to a customer (if any). Variable considerations are limited to the amount for which it is highly probable that a significant reversal will not occur when the uncertainties related to the variability are resolved.

The recognition of performance-based fees with the Company requires significant judgment as these are based on fund's performance, relative to a benchmark or the realised appreciation of fund's investments. Management determines transaction prices for its following revenue streams as mentioned below:

- Rendering of brokerage services, where the Company acts as a broker for its customers. Transaction price is the commission received by the Company on such transactions, net of rebates and discounts, if any.
- Performance fee is based on funds' performance in relation to set benchmarks, which are subject to market volatility. Accordingly, the consideration to which the Company is entitled becomes variable. Transaction price for performance fee is determined once benchmark is achieved and testing time for achievement of stated benchmark is end of relevant period.
- Transaction price in respect of subscription fee received by the Company is generally fixed as per the subscription form signed by the customers
- In respect of Management fee received by the Company, transaction price is determined to be based on fixed percentage of funds' daily NAV. Accordingly, there is no variability in the consideration to which the Company is entitled
- Other advisory fee, which are generally fixed in nature based on agreement with the Parent to which the Company provides advisory services
- Rental income is earned from investment properties and is recognised on a straight-line basis over the term of the lease.

Allocate the transaction price

Once the performance obligations have been identified and the transaction price has been determined, transaction price is allocated to the performance obligations, generally in proportion to their stand-alone selling prices (i.e., on a relative stand-alone selling price basis). When determining stand-alone selling prices, the Company is required to use observable information, if available. If stand-alone selling prices are not directly observable, the Company makes estimates based on information that is reasonably available.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Revenue – contracts with customers (continued)

Satisfaction of performance obligations
Revenue is recognised only when the Company satisfies a performance obligation by transferring control of a promised service to the customer. Control may be transferred over time or at a point in time. Where a performance obligation is satisfied overtime, the Company identifies the progress under the contract based on either of an input or output method which best measures the performance completed to date. The method selected is applied consistently to similar performance obligations and in similar circumstances.

The Company fulfills its performance obligations in its contracts with customers at a point in time, and hence it recognises revenue as and when it fulfills its obligations under contracts with customers.

Based on the above five steps the revenue recognition policy for each revenue stream is as follow:

Brokerage income
Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Company is satisfied when the Company carries out the transaction, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

Asset management fees
Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Company's efforts to transfer the services for that period. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

Special commission income on Murabaha receivable
Special commission income for all special commission bearing financial instruments (Murabaha receivables) are recognized in the statement of profit or loss using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective commission rate, ARC estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset is adjusted if ARC revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as impairment losses.

If a financial asset subsequently becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Revenue – contracts with customers (continued)

Special commission income on Murabaha receivable (continued)
The calculation of the effective yield takes into account all contractual terms of the financial instruments (Murabaha receivables) and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset.

Dividend income
Dividend income is recognised when the right to receive the income is established.

Net gain from financial assets at fair value through profit or loss
This include all gains and losses from changes in fair values and disposal of investments.

Rental income
Rental income from operating lease of the property is recognized on a straight-line basis over the term of the lease.

3.11 Finance cost
Expenses from borrowings are recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the Parent.

3.12 Earnings prohibited by Shari'a
The Company is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the ARC uses these funds for charitable purposes as defined by the Sharia Supervisory Board.

3.13 Expenses
Promotional and marketing expenses are those which specifically relate to promotion and marketing. All other expenses, other than employees costs, financial charges and expenses allocated by the Parent are classified as general and administrative expenses.

3.14 Operating lease expense
Operating lease payments are recognized as expenses in the statement of profit or loss on a straight-line basis over the lease term.

3.15 Foreign currencies
Transactions in foreign currencies are translated into the functional currencies of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in statement of profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Contingent assets and liabilities

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognized but are disclosed where an inflow of economic benefits is probable.

3.17 Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is an enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.18 Assets under management

The Company offers assets management services to its customers, which include management of certain mutual funds. Such assets are not treated as assets of the Company and accordingly are not included in these financial statements.

3.19 Clients' cash accounts

The Company holds cash in clients' cash accounts with local banks to be used for investments on their behalf. Such balances are not included in the Company's financial statements.

4 PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Computer hardware	Total
Cost:					
Balance at 1 January 2018	730,686	1,034,870	390,000	1,902,807	4,058,363
Additions	--	22,729	--	62,115	84,844
Balance at 31 December 2018	730,686	1,057,599	390,000	1,964,922	4,143,207
Balance at 1 January 2019	**730,686**	**1,057,599**	**390,000**	**1,964,922**	**4,143,207**
Additions	--	**34,973**	--	**579,461**	**614,434**
Disposals	**(730,686)**	**(595,350)**	--	**(1,497,046)**	**(2,823,082)**
Balance at 31 December 2019	--	**497,222**	**390,000**	**1,047,337**	**1,934,559**
Accumulated depreciation:					
Balance at 1 January 2018	695,054	846,476	390,000	1,823,260	3,754,790
Charge for the year	35,615	102,388	--	71,676	209,679
Balance at 31 December 2018	730,669	948,864	390,000	1,894,936	3,964,469
Balance at 1 January 2019	**730,669**	**948,864**	**390,000**	**1,894,936**	**3,964,469**
Charge for the year	--	**57,610**	--	**473,926**	**531,536**
Disposals	**(730,669)**	**(554,148)**	--	**(1,410,876)**	**(2,695,693)**
Balance at 31 December 2019	--	**452,326**	**390,000**	**957,986**	**1,800,312**
Carrying amount:					
1 January 2018	35,632	188,394	--	79,547	303,573
31 December 2018	17	108,735	--	69,986	178,738
31 December 2019	--	**44,896**	--	**89,351**	**134,247**

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5 INTANGIBLE ASSETS

	For the year ended 31 December 2019	2018
Cost:		
At the beginning of the year	**45,249,174**	40,230,451
Additions	**9,803,380**	5,018,723
At the end of the year	**55,052,554**	45,249,174
Accumulated amortization:		
At the beginning of the year	**30,586,811**	25,474,037
Charge for the year	**4,761,071**	5,112,774
At the end of the year	**35,347,882**	30,586,811
Carrying amount at the end of the year	**19,704,672**	14,662,363

Intangible assets represent core and related systems softwares; work in progress in respect of development / improvements to systems softwares. As at 31 December 2019, intangible assets include work in progress amounting to SR 5,468,645 (31 December 2018: SR 3,161,067).

6 INVESTMENT PROPERTIES

This represents commercial and retail properties in the Kingdom of Saudi Arabia ("KSA") and the United Arab Emirates ("UAE") which were leased to third-party tenants under operating lease arrangements.

	Land	Buildings	Total
Cost:			
Balance at 1 January 2018	811,670,934	538,329,066	1,350,000,000
Additions	--	446,652	446,652
Balance at 31 December 2018	811,670,934	538,775,718	1,350,446,652
Balance at 1 January 2019	**811,670,934**	**538,775,718**	**1,350,446,652**
Additions	**82,753,000**	**20,725,965**	**103,478,965**
Balance at 31 December 2019	**894,423,934**	**559,501,683**	**1,453,925,617**
Accumulated depreciation:			
Balance at 1 January 2018	--	35,993,926	35,993,926
Charge for the year	--	16,862,280	16,862,280
Balance at 31 December 2018	--	52,856,206	52,856,206
Balance at 1 January 2019	--	**52,856,206**	**52,856,206**
Charge for the year	--	**17,220,850**	**17,220,850**
Balance at 31 December 2019	--	**70,077,056**	**70,077,056**
Carrying amount:			
1 January 2018	811,670,934	502,335,140	1,314,006,074
31 December 2018	811,670,934	485,919,512	1,297,590,446
31 December 2019	**894,423,934**	**489,424,627**	**1,383,848,561**

6 INVESTMENT PROPERTIES (CONTINUED)

Investment properties comprise of the following:

		31 December 2019			
Category	Location	Cost	Accumulated depreciation	Carrying amounts	Fair value
Distribution Centre	Riyadh, KSA	**393,764,675**	**(24,560,493)**	**369,204,182**	**412,660,000**
Mall	Jeddah, KSA	**362,193,837**	**(9,342,603)**	**352,851,234**	**353,850,000**
Warehouse	Jebel Ali, UAE	**227,224,834**	**(26,537,726)**	**200,687,108**	**234,827,973**
Commercial Headquarter	Riyadh, KSA	**168,984,215**	**(2,236,642)**	**166,747,573**	**167,280,000**
Mall	Jeddah, KSA	**139,804,667**	**(3,430,245)**	**136,374,422**	**138,460,000**
Warehouse	Riyadh, KSA	**58,474,424**	**(2,949,075)**	**55,525,349**	**57,050,000**
Mall	Riyadh, KSA	**103,478,965**	**(1,020,272)**	**102,458,693**	**111,430,000**
As at 31 December 2019		**1,453,925,617**	**(70,077,056)**	**1,383,848,561**	**1,475,557,973**

		31 December 2018			
Category	Location	Cost	Accumulated depreciation	Carrying amounts	Fair value
Distribution Centre	Riyadh, KSA	393,764,675	(18,651,668)	375,113,007	459,423,219
Mall	Jeddah, KSA	362,193,837	(7,433,192)	354,760,645	355,522,247
Warehouse	Jebel Ali, UAE	227,224,834	(20,017,426)	207,207,408	242,800,000
Commercial Headquarter	Riyadh, KSA	168,984,215	(2,013,635)	166,970,580	173,715,131
Mall	Jeddah, KSA	139,804,667	(2,604,988)	137,199,679	137,593,340
Warehouse	Riyadh, KSA	58,474,424	(2,135,297)	56,339,127	58,564,253
As at 31 December 2018		1,350,446,652	(52,856,206)	1,297,590,446	1,427,618,190

Investment properties in the KSA are legally owned by Al Rajhi Development Company, a wholly owned subsidiary of the Parent. Further, investment property in the UAE is legally owned by Privileged Warehouses Company 3, a wholly owned subsidiary of the Company, for the beneficial interest of the Company.

Fair value of investment properties is determined annually by independent qualified property valuers.

(i) Amounts recognised in the statement of profit or loss in respect of investment properties are as follows:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Rental income	**104,568,066**	99,956,741
Cost of income	**(22,680,352)**	(20,071,755)
	81,887,714	79,884,986

(ii) The future minimum lease payments under non-cancellable leases are receivable as follows:

	31 December 2019	31 December 2018
Within one year	**106,182,115**	99,191,887
Later than one year but not later than 5 years	**383,796,849**	366,908,277
Later than 5 years	**250,799,108**	266,097,747
	740,778,072	732,197,911

7 INVESTMENTS

Investments portfolio is summarised as follows:

	31 December 2019	31 December 2018
Non-current		
Investments held at FVTPL		
Investments in mutual funds	**467,522,801**	448,252,478
Equity securities	**440,000**	440,000
	467,962,801	448,692,478
Current		
Investments held at FVTPL		
Investment in a mutual fund	**462,657,394**	412,665,650
Investments held at amortised cost		
Short-term placement *(note 7.2)*	**--**	300,875,539
	462,657,394	713,541,189
	930,620,195	1,162,233,667

7.1 The table below summarises the investments in mutual funds:

	31 December 2019	31 December 2018
Quoted		
Al Rajhi Commodity Fund	**462,657,394**	412,665,650
Al Rajhi REIT Fund	**115,063,699**	97,196,665
Al Rajhi Sukuk Fund	**5,430,104**	5,134,400
Al Rajhi MENA Fund	**4,422,265**	4,310,600
	587,573,462	519,307,315
Unquoted		
Alinma Makkah Real Estate Fund	**342,606,733**	341,610,813
	930,180,195	860,918,128

7.2 During the year ended 31 December 2018, the Company entered into a short-term placement of SR 300 million. The tenor of the placement was 6 months and carried mark-up at commercial market rates. During the year ended 31 December 2019, this short-term placement has matured. The reconciliation of the carrying amount was as follows:

	31 December 2019	31 December 2018
Gross short-term placement	**--**	305,532,083
less: Unearned profit	**--**	(5,532,083)
Principal outstanding	**--**	300,000,000
Accrued profit on principal outstanding	**--**	875,539
	--	300,875,539

8 EMPLOYEE LOAN

This represents a non-profit bearing loan to a senior executive officer of the Company.

	31 December 2019	31 December 2018
Non-current	**--**	1,758,000
Current	**1,758,000**	--
	1,758,000	1,758,000

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank in current accounts.

10 MURABAHA RECEIVABLES

Murabaha receivables are as follows:

	31 December 2019	31 December 2018
Gross Murabaha receivables	**834,064,672**	390,972,259
less: Unearned profit	**(33,279,780)**	(15,914,909)
Principal outstanding	**800,784,892**	375,057,350
Accrued profit on principal outstanding	**11,036,582**	8,961,285
Less: Allowance for credit impairment losses on Murabaha receivables *(note 10.1)*	**(72,777)**	(40,684)
	811,748,697	383,977,951

As at 31 December 2019, Murabaha receivables have original maturity tenure ranging from 3 to 12 months (31 December 2018: 3 to 12 months). Further, these Murabaha receivables carry profit rates ranging from 3.50% to 9.40% per annum (31 December 2018: 3.30% to 9.60% per annum).

As at 31 December 2019, Murabaha receivables are not past due (31 December 2018: not past due).

10.1 The movement in allowance for credit impairment losses on Murabaha receivables is as follows:

	For the year ended 31 December 2019	2018
At the beginning of the year	**40,684**	29,779
Charge for the year	**32,093**	10,905
At the end of the year	**72,777**	40,684

11 ACCRUED INCOME

	31 December 2019	31 December 2018
Management fees	**25,577,380**	17,796,231
Others	**1,304,876**	1,552,649
	26,882,256	19,348,880

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12 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Gross rental receivables	**28,032,649**	20,058,191
Less: Allowance for credit impairment losses *(note 12.1)*	**(10,572,198)**	(3,303,202)
Net rental receivables	**17,460,451**	16,754,989
Advance to Al Rajhi Real Estate Investment Trust ("REIT") *(note 21.2)*	**30,000,000**	2,000,000
Receivables from REIT *(note 21.2)*	**--**	4,931,808
Due from the Parent *(note 21.2)*	**997,889**	3,140,514
Prepayments	**7,298,305**	3,584,852
Advances to employees	**297,880**	481,215
Other receivables	**6,455,611**	1,130,866
	62,510,136	32,024,244

12.1 The movement in allowance for credit impairment losses in relation to rental receivables is as follows:

	For the year ended 31 December 2019	2018
At the beginning of the year	**3,303,202**	--
Charge for the year	**7,268,996**	3,303,202
At the end of the year	**10,572,198**	3,303,202

12.2 The ageing of rental receivables is as follows:

	31 December 2019	31 December 2018
Less than 30 days	**8,370,802**	7,522,801
30 – 180 days	**3,961,708**	6,717,451
More than 180 days	**15,700,139**	5,817,939
	28,032,649	20,058,191

13 EMPLOYEE BENEFITS

13.1 The movement in employee benefits is as follows:

	For the year ended 31 December 2019	2018
At the beginning of the year	**40,578,870**	38,241,303
Current service cost	**4,050,897**	4,600,131
Financing cost	**1,702,000**	1,388,000
Amount recognised in the statement of profit or loss	**5,752,897**	5,988,131
Benefits paid	**(5,949,457)**	(3,650,564)
At the end of the year	**40,382,310**	40,578,870

13 EMPLOYEE BENEFITS (CONTINUED)

13.2 Principal actuarial assumptions

	31 December 2019	31 December 2018
Discount rate	**4.50%**	4.70%
Future salary increases	**4.00%**	4.00%
Turnover:		
- Age 18-25	**31.25%**	31.25%
- Age 26-30	**25.00%**	25.00%
- Age 31-50	**12.50%**	12.50%
- Age 51-59	**6.25%**	6.25%

Discount rate

This rate was used to calculate the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount employee benefits is determined by reference to the market yields on high quality corporate bonds at the end of the reporting period. In case of the Company, the discount rate was derived with reference to US dollar denominated Kingdom of Saudi Arabia government traded bonds with maturities consistent with the estimated term of the employee benefits. The average duration of the employment benefit obligation was 9.7 years (31 December 2018: 9.9 years).

Salary increases

The salary escalation of 4% (31 December 2018: 4%) has been assumed as the long-term salary escalation rate and is broadly consistent with the benchmark salary increment rate of the region.

Turnover

The turnover assumption has been based on the prior year assumptions for attrition rates, which was considered to be in-line with the actual attrition rates.

13.3 Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employee benefits as follows:

	31 December 2019	31 December 2018
Discount rate		
1 % increase	**(3,250,000)**	(3,208,000)
1% decrease	**3,756,000**	3,713,000
Future salary increases		
1% increase	**3,737,000**	3,702,000
1% decrease	**(3,294,000)**	(3,257,000)
Turnover		
20% increase	**(303,000)**	(211,000)
20% decrease	**288,000**	176,000

13.4 Risks associated with the defined benefit plans

Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

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13 EMPLOYEE BENEFITS (CONTINUED)

13.4 Risks associated with the defined benefit plans

Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly.

14 OTHER PAYABLES AND ACCRUALS

	31 December 2019	31 December 2018
Payable to charities *(note 14.1)*	**15,516,458**	20,701,401
Staff bonus	**25,378,144**	21,787,320
Subscriptions payable	**3,471,887**	2,478,985
Accrued rent	**2,487,537**	2,000,000
VAT payable	**2,988,994**	1,885,223
Unearned rental income	**15,154,288**	14,307,148
Due to the Parent *(note 21.2)*	**21,828**	660,917
Others	**13,940,279**	13,557,516
	78,959,415	77,378,510

14.1 In accordance with the Sharia Committee's resolution, issued by the Sharia Board of the Company and adopted by management, share brokerage service fees earned relating to certain identified shares received by the Company is excluded from the determination of income for the year, and is recorded as a payable to authorized charities. The movement in payable to charities is as follows:

	For the year ended 31 December 2019	2018
At the beginning of the year	**20,701,401**	58,410,433
Additions	**4,511,214**	15,414
Payments made during the year	**(9,696,157)**	(37,724,446)
At the end of the year	**15,516,458**	20,701,401

15 DUE TO A RELATED PARTY - ZAKAT PAYABLE

The Company does not file a separate Zakat return with the GAZT as the Parent files a consolidated / single Zakat return based on its consolidated Zakat base and accordingly settles the Zakat liability with the GAZT. Accordingly, the Company is not required to make any payment to the GAZT.

15.1 The movement of Zakat payable is as follows:

	For the year ended 31 December 2019	2018
At the beginning of the year	**10,556,714**	7,836,551
Charge for the year *(note 15.2)*	**20,941,786**	10,556,714
Payments made during the year	**(10,556,714)**	(7,836,551)
At the end of the year	**20,941,786**	10,556,714

15.2 This represents the Company's portion of Zakat allocated by the Parent.

16 PROVISIONS

These relate to various open litigation cases against the Company that might result in an unfavourable outcome. The Company believes that the outcome of these cases will not exceed the amount of provisions.

The movement in provisions is as follows:

	For the year ended 31 December 2019	2018
At the beginning of year	**9,728,972**	10,728,972
Reversals during the year	**(2,398,826)**	(1,000,000)
At the end of the year	**7,330,146**	9,728,972

17 SHARE CAPITAL

	31 December 2019	31 December 2018
Number of Ordinary shares	**50,000,000**	50,000,000
Ordinary shares (amount)	**500,000,000**	500,000,000

17.1 The Company's share capital is wholly owned by Al Rajhi Banking and Investment Corporation (the "Parent") as of 31 December 2019 and 31 December 2018.

18 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2019	2018
IT licenses	**4,416,264**	3,221,451
Professional fees	**4,073,425**	3,595,294
IT support *(note 21.1)*	**3,016,777**	4,335,840
Subscriptions	**2,473,078**	2,062,554
Utilities	**1,713,066**	1,439,325
Telecommunication	**1,541,960**	1,022,087
Directors' remuneration *(note 21.1)*	**946,000**	919,000
Cleaning expenses	**848,943**	1,258,753
Professional indemnity insurance	**607,424**	664,795
Repair and maintenance	**543,173**	83,671
Client compensation on operation losses	**463,341**	194,491
Business travel & entertainment	**421,588**	283,670
Regulatory fees	**355,253**	349,525
Shariah Board fees	**320,000**	400,000
Other	**994,405**	952,061
	22,734,697	20,782,517

19 FINANCIAL INSTRUMENTS – FAIR VALUES

19.1 Fair value measurements of financial instruments

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. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. 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 of fair value.

19 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)

19.1 Fair value measurements of financial instruments (continued)

	Accounting classification and carrying amount				Fair values			
	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total	Level 1	Level 2	Level 3	Total
31 December 2019								
Financial assets								
Financial assets measured at fair value								
Investments	930,620,195	--	--	930,620,195	115,063,699	472,509,763	343,046,733	930,620,195
Financial assets not measured at fair value								
Cash and cash equivalents	--	--	33,086,783	33,086,783	--	--	--	--
Murabaha receivables	--	--	811,748,697	811,748,697	--	--	--	--
Employee loan	--	--	1,758,000	1,758,000	--	--	--	--
Accrued income	--	--	26,882,256	26,882,256	--	--	--	--
Advances and other receivables	--	--	55,211,831	55,211,831	--	--	--	--
	930,620,195	--	928,687,567	1,859,307,762	115,063,699	472,509,763	343,046,733	930,620,195
Financial liabilities								
Financial liabilities not measured at fair value								
Other payable and accruals	--	--	19,921,531	19,921,531	--	--	--	--
	--	--	19,921,531	19,921,531	--	--	--	--

19 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)

19.1 Fair value measurements of financial instruments (continued)

	Accounting classification and carrying amount				Fair values			
	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total	Level 1	Level 2	Level 3	Total
31 December 2018								
Financial assets								
Financial assets measured at fair value								
Investments	861,358,128	--	--	861,358,128	97,196,665	422,110,650	342,050,813	861,358,128
Financial assets not measured at fair value								
Cash and cash equivalents	--	--	59,194,115	59,194,115	--	--	--	--
Investments	--	--	300,875,539	300,875,539				
Murabaha receivables	--	--	383,977,951	383,977,951	--	--	--	--
Employee loan	--	--	1,758,000	1,758,000	--	--	--	--
Accrued income	--	--	19,348,880	19,348,880	--	--	--	--
Advances and other receivables	--	--	28,439,392	28,439,392	--	--	--	--
	861,358,128	--	793,593,877	1,654,952,005	97,196,665	422,110,650	342,050,813	861,358,128
Financial liabilities								
Financial liabilities not measured at fair value								
Other payable and accruals	--	--	18,697,418	18,697,418	--	--	--	--
	--	--	18,697,418	18,697,418	--	--	--	--

19 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)

19.2 Fair valuation techniques

Financial assets at fair value through profit or loss classified as Level 2 include investments in mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the reporting date.

Financial assets at fair value through profit or loss classified as Level 3 include investments in equity securities recorded at cost and investment in an unquoted mutual fund, the fair value of which is determined based on net assets value (NAV) obtained from the latest available financial statements of the unquoted mutual fund.

19.3 Fair value transfers

There have been no transfers between Level 1, Level 2 and Level 3 during the reporting periods.

20 FINANCIAL RISK MANAGEMENT

The Company's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. These risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company has exposure to the following risks arising from financial instruments:
- Credit risk
- Market risk
- Liquidity risk

20.1 Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit risk including evaluation of customers' credit worthiness, formal credit approvals and obtaining collateral.

The schedule below shows the maximum limit for exposure to credit risk of the statement of financial position elements:

	31 December 2019	31 December 2018
Cash and cash equivalents	**33,086,783**	59,194,115
Murabaha receivables – gross	**811,821,474**	384,018,635
Investments	**–**	300,875,539
Accrued income	**26,882,256**	19,348,880
Employee loan	**1,758,000**	1,758,000
Advances and other receivables - gross	**65,784,029**	31,742,594
Total	**939,332,542**	796,937,763

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.1 Credit risk (continued)

The cash and cash equivalents are held with banks with reputable standing within the Kingdom of Saudi Arabia. Significant portion of the bank balances are in current account and are held with the Parent which is rated A1 by Moody's as at 31 December 2018.

The Company holds equity instruments of customers as collateral against Murabaha receivables which are carried at amortised cost. The value of collateral is regularly monitored by the Company to ensure that it is sufficient to cover the exposure of Murabaha receivables.

As part of the ongoing monitoring of Murabaha receivables, the Company requests additional collateral in the form of margin call by raising first margin call at 150%, and the final margin call at 135%, after which the shares are liquidated.

	31 December 2019	31 December 2018
Murabaha receivables – gross	**811,821,474**	384,018,635
Fair value of collateral held against the receivables	**2,139,690,998**	839,862,831

Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a Murabaha receivables and rental receivables entails estimations about the likelihood of defaults, associated loss ratios and default correlations of customers. The Company measures credit risk using ECL which is derived by PD, EAD and LGD.

a) ECL - Significant increase in credit risk ("SICR")

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

The assessment of SICR incorporates forward-looking information and is performed on yearly basis for all financial instruments including those which are considered to have low credit risk by the Company. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Company.

b) Generating the term structure of PD

Monthly PDs are determined based on the incidents of Murabaha receivables liquidation and its weighted average exposures. In case of PD calculation, total value of liquidated cases are taken under total monthly portfolios. Annual PDs are calculated using the monthly PDs through binomial/ survival rate method.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.1 Credit risk (continued)

Credit risk measurement (continued)

b) Generating the term structure of PD (continued)

Through the Cycle (TTC) PD are determined using inverse of Vasicek methodology to get stable TTC PD. TTC PD is then calibrated to the current macroeconomic environment to obtain appropriate PD for the current business cycle. This is performed using the percent rank of current GDP growth, as against historical GDP performance data. Then 3 scenarios are considered; Baseline (Current), Upturn (Good) and Downturn (Worse). Based on the rank of GDP, the Sigma distance from the mean in a normal distribution is obtained (Z curve) for the baseline scenario. This has been capped subjecting to tail values (this is further be referred to as mean and tail computed for adverse and upturn scenarios). For computation of baseline, downturn and upturn scenario PDs, the TTC PD value is adjusted on the normal distribution using Sigmas computed earlier and the Basel IRB prescribed correlation for Retail Customers. Correlation for the above is computed employing Basel correlation formula as per Basel IRB approach.

c) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Company considers the minimum collateral coverage of Murabaha receivables. If the collateral value falls below 135%, it is considered as significant increase in credit risk and the customer is classified in Stage II.

In case of rental receivables, the Company considers that a significant increase in credit risk occurs no later than when a receivable is more than 30 days past due except in case of rebuttal. Days past due are determined by counting the days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the tenant.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due.

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and profit is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowances). All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process is used as stage 3.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.1 Credit risk (continued)

Credit risk measurement (continued)

d) Definition of 'Default'

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security; or
- the rental receivable is past due more than 180 days

e) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on above, the Company formulate 3 scenarios; Baseline (Current), Upturn (Good) and Downturn (Worst) for the future direction of relevant economic variables. External information includes economic data of current GDP growth, as against historical GDP performance data.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes. The other scenarios represent more optimistic and more pessimistic outcomes.

f) Measurement of ECL

Scenario weighted ECL have been calculated taken into account three different scenarios Baseline, Downturn and Upturn. The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default ("PD");
ii. loss given default ("LGD");
iii. exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models as defined above in (b).

LGD is the magnitude of the likely loss if there is a default. Company's portfolio consists of four different kinds of portfolio coverage (as collaterals) and Cash position. Four different kinds of collateral coverage includes more than 200% coverage, between 170% to 200% coverage, between 170% to 150% coverage and below 150% coverage. Haircuts have been applied for above collateral coverage. LGDs are determined for each market condition (stable and volatile) under monthly portfolios. Average of LGDs across the periods has been taken to arrive at weighted average LGD of 0.46% considering the Stable Market Assumption whereas, average of LGDs across the periods has been taken to arrive at weighted average LGD of 2.71% considering the Volatile Market condition. However, for ECL calculations, Stable market assumption have been taken by the Company.

In the case of rental receivables, the Regulatory recommended LGD of 50% has been used for the ECL calculation.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty including the accrued profit.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.1 Credit risk (continued)

g) Loss allowance

(i) **Murabaha receivables**

	31 December 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount	**811,821,474**	--	--	**811,821,474**
Expected credit loss	**(72,777)**	--	--	**(72,777)**
Net carrying amount	**811,748,697**	--	--	**811,748,697**

(ii) **Rental receivables**

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount	**8,370,802**	**3,961,708**	**15,700,139**	**28,032,649**
Expected credit loss	**(18,550)**	**(203,578)**	**(10,350,070)**	**(10,572,198)**
Net carrying amount	**8,352,252**	**3,758,130**	**5,350,069**	**17,460,451**

(i) Murabaha receivables

	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount	384,018,635	--	--	384,018,635
Expected credit loss	(40,684)	--	--	(40,684)
Net carrying amount	383,977,951	--	--	383,977,951

(ii) Rental receivables

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount	7,522,801	6,717,451	5,817,939	20,058,191
Expected credit loss	(17,209)	(377,024)	(2,908,969)	(3,303,202)
Net carrying amount	7,505,592	6,340,427	2,908,970	16,754,989

At 31 December 2019 and 31 December 2018, the credit risk exposure for Murabaha receivables and rental receivables by geographic region was limited to KSA and UAE only.

The credit risk exposure for Murabaha receivables and rental receivables by type of customer is as follows:

	31 December 2019	31 December 2018
Retail customers	**787,989,084**	384,018,635
Corporate customers	**51,865,039**	20,058,191
	839,854,123	404,076,826

At 31 December 2019, the carrying amount of the Company's most significant customer was SR 64 million (2018: SR 50 million).

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.1 Credit risk (continued)

Credit risk measurement (continued)

In determining the recoverability of a Murabaha receivable, the Company considers any change in the credit quality of the Murabaha from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated other than one customer.

There are no impaired receivables since none of the receivables are past due.

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments:

	For the year ended 31 December 2019			
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Murabaha and rental receivables				
At the beginning of the year	**57,893**	**377,024**	**2,908,969**	**3,343,886**
Net re-measurement of loss allowance	**33,434**	**(173,446)**	**7,441,101**	**7,301,089**
At the end of the year	**91,327**	**203,578**	**10,350,070**	**10,644,975**

	For the year ended 31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Murabaha receivables and rental receivables				
At the beginning of the year	29,768	11	--	29,779
Net re-measurement of loss allowance	28,125	377,013	2,908,969	3,314,107
At the end of the year	57,893	377,024	2,908,969	3,343,886

20.2 Market risk

Profit rate risk
Profit rate risk is the risk that the profit rate changed is not commensurate with financing cost due to changes in the market commission rate. The Company has fixed rate Murabaha receivables and payables; hence, the Company is not exposed to any profit rate risk.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Arabian Riyals, Arab Emirates Dirham and US Dollars during the year. As Saudi Arabian Riyal and Arab Emirates Dirham are pegged to US Dollar, therefore the Company is not exposed to currency risk.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.2 Market risk (continued)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company is exposed to market risk with respect to its investments in mutual funds. The Company limits market risks by diversification of its investments.

A change in the NAV of Level 3 investments, with all other variables held constant, would impact the statement of profit or loss as set out below:

Change in NAV %	For the year ended 31 December 2019	For the year ended 31 December 2018
±5	± 17,152,337	± 17,102,541
±10	± 34,304,673	± 34,205,081

20.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Murabaha deposits are generally placed for short periods to manage the Company's liquidity requirements. All financial liabilities on the Company's statement of financial position are contractually payable on a current basis. Liquidity risk at investment fund level is being managed through appropriate liquidity limits.

The Company's liquidity management process is as follows:

a. Day-to-day funding, managed by the Finance department to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
b. Monitoring liquidity ratios against internal and regulatory requirements;
c. Managing the concentration and profile of debt maturities; and
d. Liquidity management and asset and liability mismatching.

The below schedule shows an analysis of financial liabilities based on the expected date of collection or settlement:

31 December 2019	Total	0 - 1 year	1 - 5 years	No fixed maturity
Non-derivative financial liabilities				
Other payables and accruals	19,921,531	19,921,531	--	--
31 December 2018				
Non-derivative financial liabilities				
Other payables and accruals	18,697,418	18,697,418	--	--

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(Saudi Arabian Riyals)

21 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the Parent and its affiliated entities and certain key management personnel. In the ordinary course of activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel includes the Chief Executive Officer ("CEO") and the personnel directly reporting to the CEO.

21.1 Related parties transactions

The significant transactions with related parties in relation to the Company's core activities are as follows:

Related party	Nature of transaction	For the year ended 31 December 2019	For the year ended 31 December 2018
Al Rajhi Banking and Investment Corporation, the Parent	IT support expenses	3,016,777	4,335,840
	Rental of office space	1,799,145	3,084,248
	Financial charges on borrowing	--	8,250,000
	Fee for transfers	(126,000)	378,000
	Borrowing (repaid) / availed	--	(400,000,000)
	Withholding tax	1,033,190	1,271,490
	IPO service fee from the Parent	2,383,204	3,151,014
	Others	22,053	45,500
Board of Directors members'	Remunerations	946,000	919,000
	Board meeting expenses	22,053	14,888
Al Rajhi Company for Management Services, a fellow subsidiary	Outsourcing of staff	456,223	499,900
Al Rajhi Takaful Agency Company, a fellow subsidiary	Insurance	705,221	2,895,383
Al Fursan, common directorship	Business travel and air tickets	27,087	57,813
Key management personnel	Employee benefits	528,830	794,244
	Salaries	5,039,400	5,944,044
	Allowances	2,578,856	2,926,869
	Annual and periodic bonuses	7,299,420	6,982,490
All Funds managed by the Company	Income from asset management services	84,176,160	73,886,163
Al Rajhi REIT, a fund managed by the Company	Advance to REIT	30,000,000	2,000,000
	Expenses incurred on behalf of REIT	6,669,075	1,467,405

21 RELATED PARTY TRANSACTIONS AND BALANCES

21.2 Related parties balances

Significant balances with related parties are as follows:

Related party	Nature of transaction	31 December 2019	31 December 2018
Al Rajhi Banking and Investment Corporation, the Parent	IPO service fee receivable from the Parent	**767,810**	2,748,450
	Fee for transfers	--	126,000
	Others	**230,079**	21,000
	Due from the Parent *(note 12)*	**997,889**	3,140,514
	Custodian fee	--	618,340
	Withholding tax	**21,828**	42,577
	Due to the Parent *(note 14)*	**21,828**	660,917
	Due to a related party– zakat payable *(note 15)*	**20,941,786**	10,556,714
Al Rajhi Real Estate Investment Trust (REIT)	Advance to REIT	**30,000,000**	2,000,000
	Receivable from REIT	--	4,931,808
Al Rajhi Development	Advance rent	**3,638,733**	--
All Funds managed by the Company	Accrued management fee	**25,577,380**	17,796,231
Board of Directors members	Remunerations	--	919,000
Key management personnel	Employee benefits	**4,111,835**	4,261,577
	Annual and periodic bonuses	**7,299,420**	6,982,490
	Employee loan	**1,758,000**	1,758,000

22 CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2019, the Company has capital commitments of SR 9,252,143 (2018: SR 6,304,907).

The future minimum lease payments under non-cancellable operating leases, where the Company is the lessee, are as follows:

	31 December 2019	31 December 2018
Within one year	**3,811,464**	648,993
Later than one year but not later than 5 years	--	601,292
	3,811,464	1,250,285

23 CLIENTS' CASH ACCOUNTS

At 31 December 2019, the Company was holding clients' cash accounts amounting to SR 4.8 billion (31 December 2018: SR 3.7 billion), to be used for investments on the clients' behalf. Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

24 ASSETS UNDER MANAGEMENT

The Company manages investment portfolios and mutual funds on behalf of its customers, which amounts to SR 42.1 billion as at 31 December 2019 (31 December 2018: SR 41.3 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

25 CAPITAL ADEQUACY

The CMA has issued Prudential Rules (the "Rules") dated 17 Safar 1434H (corresponding to 30 December 2012). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	31 December 2019 SAR'000	31 December 2018 SAR'000
Capital base:		
Tier 1 Capital	**3,102,975**	2,818,063
Tier 2 Capital	--	--
Total capital base	**3,102,975**	2,818,063
Minimum capital requirement:		
Market risk	**19,987**	--
Credit risk	**1,229,003**	1,093,799
Operational risk	**75,640**	80,592
Total minimum capital required	**1,324,630**	1,174,391
Capital adequacy ratio:		
Total capital ratio (time)	**2.34**	2.40
Surplus in capital	**1,778,345**	1,643,672

Capital Base of the Company comprises of:

- Tier-1 capital consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves as per Article 4 of the Rules.
- Tier-2 capital consists of revaluation reserves as per Article 4 of the Rules.

The Minimum Capital Requirements for Market, Credit & Operational Risk are calculated as per the requirements specified in Part 3 of the Rules.

The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.

25 CAPITAL ADEQUACY (CONTINUED)

Certain information as required by Pillar III of the Prudential Rules will be made available to the public on the Company's website, however, this information is not subject to review or audit by the external auditors of the Company.

The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.

26 DATE OF AUTHORIZATION

These financial statements were authorized for issue on 18 February 2020 by the Board of Directors' of Al Rajhi Capital Company.