

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

February 15, 2017

To the shareholders of Al Rajhi Capital Company:

Scope of audit

We have audited the accompanying balance sheet of Al Rajhi Capital Company (the "Company") as of December 31, 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (23) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

A blue ink signature, appearing to be "Khalid A. Mahdhar", written over a horizontal line.

By:

Khalid A. Mahdhar
License Number 368

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)
Balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

		As at December 31,	
	Note	2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		78,710,121	550,508,915
Murabaha contracts receivable	3	412,561,747	517,980,946
Accrued income receivable	5	30,452,431	32,097,139
Advances and prepayments	6	9,059,456	6,651,491
TOTAL CURRENT ASSETS		530,783,755	1,107,238,491
NON CURRENT ASSETS			
Investments	7	425,046,343	80,821,075
Long-term murabaha contracts receivable	3	-	119,999,981
Property and equipment, net	8	18,128,988	19,106,551
Long-term employee loan	6	6,468,750	3,750,000
Investment properties, net	9	1,330,868,353	1,347,730,631
TOTAL NON CURRENT ASSETS		1,780,512,434	1,571,408,238
TOTAL ASSETS		2,311,296,189	2,678,646,729
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Murabaha contract	19	-	795,000,000
Other payables and accruals	10	99,383,992	89,066,842
Zakat payable to a related party	4,15	22,552,171	11,583,985
TOTAL CURRENT LIABILITIES		121,936,163	895,650,827
NON CURRENT LIABILITY			
Employees' termination benefits	18	35,473,740	31,767,340
TOTAL LIABILITIES		157,409,903	927,418,167
SHAREHOLDERS' EQUITY			
Share capital	11	500,000,000	500,000,000
Statutory reserve		250,000,000	220,976,190
Retained earnings		1,398,362,011	1,029,871,297
Changes in fair value of available for sale investments		5,524,275	381,075
TOTAL SHAREHOLDERS' EQUITY		2,153,886,286	1,751,228,562
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,311,296,189	2,678,646,729

The attached notes 1 to 23 form part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)
Statement of income
(All amounts in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	2016	2015
INCOME			
Share brokerage services fees, net	12	324,908,153	403,054,387
Management and performance fees from investment funds		129,775,848	136,877,714
Murabaha contract income	3	23,242,069	37,245,928
Investments income	14	106,131,930	50,944,793
Other services income		1,751,855	2,979,524
		585,809,855	631,102,346
EXPENSES			
Employees' salaries and related benefits		113,241,649	117,708,353
Promotion and marketing expenses		557,788	1,557,075
Rentals	4	9,058,443	9,389,666
Depreciation	8, 9	22,471,506	6,666,564
General and administrative expenses	4, 13	20,844,572	28,703,573
		166,173,958	164,025,231
Financial charges on murabaha contract	4, 20	11,153,187	3,717,729
INCOME BEFORE ZAKAT		408,482,710	463,359,386
Zakat	15	(10,968,186)	(11,583,985)
NET INCOME FOR THE YEAR		397,514,524	451,775,401

The attached notes 1 to 23 form part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	2016	2015
OPERATING ACTIVITIES			
Income before zakat		408,482,710	463,359,386
Adjustments for:			
Realised gain on sale of held for trading investments		-	(329,155)
Realized gain on sale of available for sale investments	7(a)	(12,696,003)	(13,953,303)
Depreciation	8,9	22,471,506	6,666,564
Employees' termination benefits	18	5,602,646	5,528,768
		423,860,859	461,272,260
Changes in operating assets and liabilities:			
Murabaha contracts receivable		225,419,180	350,159,129
Accrued income receivable		1,644,708	2,162,925
Advances and prepayments		(2,407,965)	(1,293,977)
Long-term employee loan		(2,718,750)	(3,750,000)
Other payables and accruals		10,317,150	(1,319,120)
Zakat paid to a related party	15	-	(27,937,000)
Employees' termination benefits	18	(1,896,246)	(3,380,074)
Net cash generated from operating activities		654,218,936	775,914,143
INVESTING ACTIVITIES			
Purchase of investment properties, net		-	(1,350,000,000)
Purchase of property and equipment	8	(4,631,665)	(9,233,772)
Purchase of held for trading investments		-	(350,000,000)
Proceeds from redemption of held for trading investments		-	350,329,155
Sale of other investments		-	10,000
Proceeds from redemption of available for sale investments	7(a)	1,218,613,935	169,263,778
Purchase of available for sale investments during the year	7(a)	(1,545,000,000)	-
Net cash used in investing activities		(331,017,730)	(1,189,630,839)
FINANCING ACTIVITY			
Murabaha contract	19	(795,000,000)	795,000,000
Cash (used in) generated from financing activity		(795,000,000)	795,000,000
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(471,798,794)	381,283,304
Cash and cash equivalents at the beginning of the year		550,508,915	169,225,611
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		78,710,121	550,508,915
Supplemental non-cash information			
Employee termination benefits transferred to Al Rajhi Bank	18	632,710	-
Changes in fair value of available for sale investments	7(a)	5,143,200	(4,998,510)

The attached notes 1 to 23 form part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Changes in fair value of available for sale investments	Total
Balance at January 1, 2016	500,000,000	220,976,190	1,029,871,297	381,075	1,751,228,562
Net income for the year	-	-	397,514,524	-	397,514,524
Changes in fair value of available for sale investments	-	-	-	5,143,200	5,143,200
Transfer to statutory reserve	-	29,023,810	(29,023,810)	-	-
Balance at December 31, 2016	500,000,000	250,000,000	1,398,362,011	5,524,275	2,153,886,286
Balance at January 1, 2015	500,000,000	175,798,650	623,273,436	5,379,585	1,304,451,671
Net income for the year	-	-	451,775,401	-	451,775,401
Changes in fair value of available for sale investments	-	-	-	(4,998,510)	(4,998,510)
Transfer to statutory reserve	-	45,177,540	(45,177,540)	-	-
Balance at December 31, 2015	500,000,000	220,976,190	1,029,871,297	381,075	1,751,228,562

The attached notes 1 to 23 form part of these financial statements.

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****1 Activities**

Al Rajhi Capital Company, ("the Company") is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241681 dated 1 Dhul Hijjah 1428H (corresponding to December 11, 2007). The activities of the Company are to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services. The Company serves a wide range of customers including corporate, non-bank financial institutions and individuals.

The Company obtained the Capital Market Authority ("CMA") license number 07068-37 on 4 Jamada Al Thani 1428H (corresponding to June 19, 2007), and obtained the commencement letter from the CMA on 10 Rabi Awwal 1429H (corresponding to March 18, 2008).

The Company was established by Al Rajhi Banking and Investment Corporation ("Al Rajhi Bank") ("the parent company") to comply with the CMA requirements with respect to the spin-off of the above mentioned activities from the Al Rajhi Bank's activities carried out in the Kingdom of Saudi Arabia.

These financial statements were approved by the Company's management on February 15, 2017.

2 Significant accounting policies

These financial statements were prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

These financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale and held-for-trading investments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of bank balances, cash on hand and investments that are readily convertible into known amounts of cash and have an original maturity period of three months or less when purchased.

Investments***Held for trading***

Investments in readily marketable securities which are acquired for trading purposes are stated at market value and included under current assets. Realised and unrealised gains or losses on these investments are recognised in the statement of income. Fair value is determined by reference to market value.

Where partial holdings are sold, the investments sold are accounted for on a weighted average basis.

Available for sale

Investments, that are acquired neither with the intention of being held to maturity nor for trading purposes, are stated at fair value and are included under non-current assets unless they will be sold in the next fiscal year. Changes in fair value are credited or charged to the statements of changes in shareholders' equity. Any decline in value considered to be other than temporary is charged to the statement of income. Fair value of available for sale financial assets is derived from quoted market prices in active market rates, if available. Fair value of unquoted available for sale financial assets is estimate using appropriate valuation techniques. Otherwise, cost is considered to be the fair value.

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****Investment properties**

Investment properties (land and building) is property held to earn rentals. Investment properties are carried at cost less accumulated depreciation except for land which is carried at cost. Depreciation is charged to income statement, 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.

Gains and losses from disposals, if any, are determined by comparing proceeds with carrying amounts and are included in the income statement.

Murabaha contracts receivable

Murabaha contracts receivable represents purchase of shares by the Company at the request of a customer and sale of these shares to the customer at a price representing the purchase price plus an agreed upon profit. The receivable balance is stated at a purchase price and the profit is reported as accrued income receivable.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective commission rate.

Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Work-in-progress is not depreciated. Depreciation is charged to the statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	Period of lease or 3 years, whichever is shorter
Furniture fixture and office equipment	3 - 5
Motor vehicles	3
Computers hardware and software	3
Business systems	3-7

Gains and losses on disposals, if any, are determined by comparing proceeds with carrying amount and are included in the statement of income.

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset are charged to the statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Other payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Zakat

Zakat is calculated and provided by Al Rajhi Bank (the Parent) and its effectively wholly owned subsidiary (the consolidated financial statements) in accordance with Saudi Arabian fiscal regulations. The provision is reflected in Al Rajhi Bank financial statements. The Company's share of this provision is charged to its statement of income.

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)*****Employees' termination benefits***

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

Statutory reserve

As per the Company's by-law, 10% of the net income for the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date. All differences are taken to the statement of income.

Revenue recognition***Share brokerage income***

Income from transaction-type services such as brokerage services, are recognized on execution of the deals.

Management and performance fees from investment funds

Fees charged for managing mutual funds are recognised as revenue rateably as the services are provided. Subscription fees from funds are recognised upon the time of subscription. Fund performance income is recognised, when the fund results meet the annual pre-set target.

Murabaha time deposit income

Income from Murabaha time deposits is recognized based on effective yield basis on the outstanding balances.

Murabaha contract income

Income from Murabaha contract is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with customers. No additional income is charged on the overdue balances.

Underwriting income

Underwriting income is recognised as revenue when the shares are allotted to the investors.

Receiving bank income

Receiving bank income is recognised when the service is provided.

Dividends income

Dividends income is recognized when the right to receive payment is established.

Advisory fee income

Advisory service fees are recognised based on the respective service contract or on a proportionate basis.

Expenses

Promotional and marketing expenses are those which specifically relate to promotion and marketing. All other expenses, other than employee's costs, financial charges and expenses allocated by Al Rajhi Bank are classified as general and administrative expenses.

Expense from Murabaha contract is 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 Al Rajhi Bank.

Operating lease

Operating lease payments are recognised as expenses in the statement of income on a straight line basis over the lease term.

Offsetting

Financial assets and liabilities are offset and are reported net in the balance sheet when there is a legal enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

3 Murabaha contracts**Contracts receivable**

Murabaha contracts involve the purchase of shares by the Company at the request of a customer. The customer then purchases the shares from the Company under a deferred payment arrangement designed to cover the costs of purchasing the shares with a pre-agreed profit mark-up. The mark-up is calculated as a percentage of the financed amount. The mark-up constitutes the Company's profit and the same is reported as accrued income (Note 5).

Contracts payable

Murabaha contracts involve the purchase of a commodity by Al Rajhi Bank at the request of the Company. The Company then purchases the commodity from Al Rajhi Bank under a deferred payment arrangement designed to cover the costs of purchasing the commodity with a pre-agreed profit mark-up. The calculation of the mark-up is calculated as a percentage of the financed amount. The mark-up constitutes the Al Rajhi Bank's profit. There were no contracts payable outstanding as of December 31, 2016.

4 Related party transactions and balances

The following are the details of the major related party transactions occurred during the year ended December 31, within the Company's ordinary course of business, along with the related balances at the year- end:

Related party	Nature of transaction	Note	Amount of transactions during the year	Balances	
				Debit	Credit
2016					
Al Rajhi Bank					
	Head office support expenses	(a) & 13	4,364,034	-	-
	Rental of office space		7,671,196	-	-
	Financial charges on Murabaha contracts payable		11,153,187	-	-
	Receivable bank		360,000	90,000	-
	Murabaha contract	19	(795,000,000)	-	-
	Zakat	15	10,968,186	-	22,552,171
2015					
Al Rajhi Bank					
	Head office support expenses	(a) & 13	5,615,789	-	-
	Rental of office space		7,539,896	-	-
	Financial charges on Murabaha contracts payable		3,717,729	-	3,717,729
	Receivable bank		270,000	60,000	-
	Murabaha contract	19	795,000,000	-	795,000,000
	Zakat	15	11,583,985	-	11,583,985

- (a) In accordance with the Service Level Agreement, Al Rajhi Bank provides a range of support and rental services to the Company during its ordinary course of business, including but not limited to, information systems support, property and equipment rentals and other support services. Al Rajhi Bank allocates certain expenses to the Company as fees against the services it provides (Note 13).

See also Note 6 regarding an employee loan to a senior executive officer.

5 Accrued income receivable

	2016	2015
Murabaha contracts accrued income	12,023,502	13,985,423
Fund management fees	17,705,027	17,137,670
Other accrued income	723,902	974,046
	30,452,431	32,097,139

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****6 Advances and prepayments**

	2016	2015
Prepayments	3,707,164	4,054,771
Advances to employees	152,597	636,960
Employee loan - short-term (a)	5,156,250	1,875,000
Others	43,445	84,760
	9,059,456	6,651,491

- (a) Employee loan to a senior executive officer of Saudi Riyals 11.62 million (non-interest bearing) of which Saudi Riyals 5,156,250 is current and Saudi Riyals 6,468,750 is long-term to be repaid by March 2018.

7 Investments

	2016	2015
Investment in available for sale securities (a)	424,606,343	80,381,075
Other	440,000	440,000
	425,046,343	80,821,075

(a) Investment in available for sale securities:

	2016	2015
Balance at the beginning of the year	80,381,075	240,690,060
Purchase of investments during the year	1,545,000,000	-
Proceeds from redemption on investments during the year	(1,218,613,935)	(169,263,778)
Realized gain on available for sale investments	12,696,003	13,953,303
Changes in fair value	5,143,200	(4,998,510)
Balance at the end of the year	424,606,343	80,381,075

Presented below is the summary of investments in funds:

	2016	2015
Commodity Fund	195,911,633	-
Al Rajhi European Real Estate Fund	75,000,000	-
Al Rajhi Sukuk Fund	70,658,325	-
Al Rajhi Real Estate Income Fund	60,435,000	76,075,500
AL Rajhi Saudi Equity	18,295,500	-
Al Rajhi MENA Fund	4,305,885	4,305,575
	424,606,343	80,381,075

AL RAJHI CAPITAL COMPANY
(A Limited Liability Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

8 Property and equipment

	Leasehold improvements	Furniture fixtures and office equipment	Motor vehicles	Computer Hardware and Software	Business Systems	Work in progress	Total 2016	Total 2015
Cost:								
At the beginning of the year	623,839	812,017	390,000	1,845,502	20,461,344	12,729,584	36,862,286	27,628,514
Transfer from WIP to Business systems	-	-	-	-	12,065,170	(12,065,170)	-	-
Additions	106,847	177,967	-	78,500	4,268,351	-	4,631,665	9,233,772
Disposals	-	-	-	-	-	-	-	-
At the end of the year	730,686	989,984	390,000	1,924,002	36,794,865	664,414	41,493,951	36,862,286
Accumulated depreciation:								
At the beginning of the year	567,987	473,264	216,670	1,428,312	15,069,502	-	17,755,735	13,358,540
Charge for the year	68,285	200,313	130,000	276,894	4,933,736	-	5,609,228	4,397,195
Disposals	-	-	-	-	-	-	-	-
At the end of the year	636,272	673,577	346,670	1,705,206	20,003,238	-	23,364,963	17,755,735
Net book amounts:								
At December 31, 2016	94,415	316,407	43,330	218,796	16,791,627	664,414	18,128,988	
At December 31, 2015	55,852	338,753	173,330	417,190	5,391,842	12,729,584		19,106,551

9 Investment properties

Investment properties at December 31 are summarized as follows:

	Land	Building	Total 2016	Total 2015
Cost:				
At the beginning of the year	811,670,934	538,329,066	1,350,000,000	-
At the end of the year	811,670,934	538,329,066	1,350,000,000	1,350,000,000
Accumulated depreciation:				
At the beginning of the year	-	(2,269,369)	(2,269,369)	-
Charge for the year	-	(16,862,278)	(16,862,278)	(2,269,369)
At the end of the year	-	(19,131,647)	(19,131,647)	(2,269,369)
Net book amounts:				
At December 31, 2016	811,670,934	519,197,419	1,330,868,353	
At December 31, 2015	811,670,934	536,059,697		1,347,730,631

Investment properties represents retail centers in Jeddah, a warehouse in Dubai, UAE, dry and chilled warehouses and staff accommodation and offices all located in Riyadh, Saudi Arabia.

The above properties are registered in the name of Al Rajhi Development Company, a wholly owned subsidiary of Al Rajhi Bank, the Parent Company.

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****10 Other payable and accruals**

	2016	2015
Staff cost	24,452,318	24,748,778
Subscriptions	1,838,959	2,165,860
Payable to charities (Note 16)	53,497,433	36,424,979
Provision for pending legal cases (Note 21)	12,442,182	14,798,231
Deferred income	753,261	1,021,309
Other	6,399,839	9,907,685
	99,383,992	89,066,842

11 Share capital

Share capital is divided into 100,000 shares of Saudi Riyals 5,000 each and wholly owned by Al Rajhi Bank as of December 31, 2016 and 2015.

12 Share brokerage service fees, net

	2016	2015
Share brokerage service fees (net of purified shares brokerage service fees) (Note 16)	469,633,859	512,560,915
Cost of share brokerage services	(144,725,706)	(109,506,528)
	324,908,153	403,054,387

13 General and administrative expenses

	2016	2015
IT licenses	4,454,908	7,113,603
Head office support expenses	4,364,034	5,615,789
Subscriptions	2,560,819	2,423,076
Telecommunication	1,173,891	1,427,570
Professional fees	1,154,396	5,431,291
Directors remuneration	948,000	894,915
Utilities	873,294	863,900
Professional indemnity insurance	798,356	801,975
Sharia Board fees	770,000	470,000
Client compensation on operation losses	444,616	447,074
Business travel & entertainment	417,559	631,642
Repairs and maintenance	255,541	304,040
Translation service cost	10,812	556,995
Other	2,618,346	1,721,703
Total	20,844,572	28,703,573

14 Investment income

Investment income during the years ended December 31 comprised of the following:

	2016	2015
Rental income from investment properties	88,251,994	15,812,651
Realized gain on sale of investments	12,696,003	17,138,091
Dividend income	5,183,933	17,994,051
	106,131,930	50,944,793

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

15 Zakat**Charge for the year**

The zakat charge for the current year amounts to Saudi Riyals 10,968,186 and it represents the Company's portion of zakat costs allocated by Al Rajhi Bank (2015: Saudi Riyals 11,583,985).

Movements in provision during the year

The movement in the zakat provision for the year was as follows:

	2016	2015
At the beginning of the year	11,583,985	27,937,000
Provided during the year (Note 4)	10,968,186	11,583,985
Payments during the year to a related party	-	(27,937,000)
At the end of the year	22,552,171	11,583,985

The Zakat calculation and filing are the responsibility of Al Rajhi Bank and is reflected in the consolidated financial statements of the parent company in accordance with the relevant regulations. The Company is charged with its share of the zakat liability and the provision amount is then transferred accordingly.

16 Exclusion of certain share brokerage service fees

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 under other payables and other accruals in the balance sheet to be paid to authorized charities. The movement in the provision for the year ended December 31, are as follows:

	2016	2015
Balance beginning of year	36,424,979	50,539,485
Additions during the year	21,924,849	-
Less: actual cost	-	(10,810,358)
Payment to charity during the year	(4,852,395)	(3,304,148)
Balance end of year	53,497,433	36,424,979

17 Assets under management

The Company manages investment portfolios and funds on behalf of its customers. Total balance of these portfolios amounted to Saudi Riyals 39 billion as of December 31, 2016 (2015: Saudi Riyals 36 billion). These amounts together with the corresponding liabilities to clients are included as off balance sheet accounts and are held in clients' accounts. The Company's share of profits from managing such portfolios is included as management fee from funds in the statement of income.

18 Employees' termination benefits

The movement in the employees' termination benefits are as follows:

	2016	2015
At the beginning of the year	31,767,340	29,618,646
Provided during the year	5,602,646	5,528,768
Payments during the year	(1,263,536)	(3,380,074)
Employees' termination benefits transferred to Al Rajhi Bank	(632,710)	-
At the end of the year	35,473,740	31,767,340

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****19 Murabaha contract**

During 2016, the Company paid back the Islamic Murabaha to the Parent Company amounting to Saudi Riyals 795 million.

20 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, Murabaha contracts receivable, other receivables and available for sale investment. Its financial liabilities consist of other payables and accruals.

21 Contingencies

The Company is involved in various claims and legal actions relating to customer claims arising in the ordinary course of business. The Company's Legal Department estimated that a provision of Saudi Riyals 12.4 million is required in connection with such claims as of December 31, 2016 (2015: Saudi Riyals 14.8 million).

22 Risk management**Murabaha profit rate risk**

Murabaha profit rate risk is the risk that the profit rate charged is not commensurate with 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 receivable.

The Company manages this risk by achieving higher trading commission so that overall profitability of the total Murabaha portfolio 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.

The Company's Murabaha contracts receivable is exposed to market risk arising from the fluctuation in share prices which are provided to the company as collateral for the facilities. The Company has adequate policy, procedures and monitoring mechanism in place to adequately control this risk.

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 credit risk arising from the financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments. All of the Company's counterparties are subject to acceptance and regular credit reviews by the Company's Credit Department. Moreover, the Murabaha contract receivable balance is secured by shares and other tangible assets available in the counterparties' portfolios which are under the custody of the Company.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Company aims to maintain liquidity coverage ratio in excess of 110% 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 investment fund level is being managed through appropriate liquidity limits and its monitoring for each Fund.

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 Riyals and US Dollars during the year. As Saudi Riyal is pegged to US Dollar, balances in US Dollars are not considered to represent significant currency risk.

AL RAJHI CAPITAL COMPANY**(A Limited Liability Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****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 and Key Risk Indicators, Business Continuity Planning and Disaster Recovery Planning.

23 Regulatory requirements of the share capital and the capital adequacy ratio

In accordance with Capital Market Authority (the CMA) circular no. X/6/11098/14 dated November 19, 2014 read in conjunction with Article 74(b) of the Prudential Rules issued by the CMA (the Rules), given below are the capital base, minimum capital requirement and total capital ratio as at December 31, 2016 and 2015:

	SR'000	
	2016	2015
Capital base		
Tier-I Capital	2,148,362	1,750,848
Tier-II Capital	5,524	381
Total capital base	2,153,886	1,751,229
Minimum capital requirement		
Credit Risk	965,275	960,559
Market Risk	-	-
Operational Risk	89,427	84,016
Total minimum capital requirement	1,054,702	1,044,575
Total capital ratio	2.04	1.68
Surplus in capital	1,099,184	706,654

- The above information has been extracted from the monthly Capital Adequacy Model for December 31, 2016 and December 31, 2015 respectively, as submitted to CMA.
- The capital base consists of Tier I and Tier II capital as per Article 4 and 5 of the Rules. The minimum capital requirements for market, credit and 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 Pillar I of the Rules. The capital adequacy ratio shall not be less than 1.
- The Company is required to disclose the prescribed information as required under Pillar III of the Rules on the Company website, however these are not subject to review or audit by the external auditors of the Company.