

**Al Rajhi Local Share Fund
(Managed by Al Rajhi Capital)**

FINANCIAL STATEMENTS

31 DECEMBER 2009

AUDITORS' REPORT TO THE UNITHOLDERS OF AL RAJHI LOCAL SHARE FUND

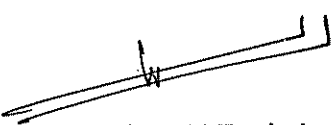
Scope of audit

We have audited the accompanying balance sheet of Al Rajhi Local Share Fund (the Fund) as at 31 December 2009 and the related statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's Management and have been prepared by them and submitted to us together with all the information and explanations which we required. 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 the Kingdom of 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

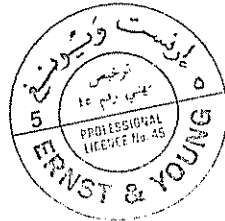
Unqualified opinion

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2009 and the results of its operations, cash flows and changes in its net assets for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young



Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354



Riyadh 12 Rabi' II 1431H
(28 March 2010)

Al Rajhi Local Share Fund

BALANCE SHEET

As at 31 December 2009

	<i>Note</i>	2009 SR	2008 SR
ASSETS			
Bank balance		6,109,464	23,862,722
Trading investments	4	484,820,542	427,830,218
Dividend receivable		8,890,144	9,241,626
		<u>499,820,150</u>	<u>460,934,566</u>
LIABILITY			
Accrued expenses		321,145	30,000
		<u>321,145</u>	<u>30,000</u>
UNITHOLDERS' FUND			
Net assets		<u>499,499,005</u>	<u>460,904,566</u>
Units in issue		<u>2,057,857</u>	<u>2,221,472</u>
Per unit value		<u>SR 242.73</u>	<u>SR 207.48</u>

The accompanying notes 1 to 12 form part of these financial statements.

Al Rajhi Local Share Fund

STATEMENT OF OPERATIONS

Year ended 31 December 2009

	<i>Note</i>	2009 SR	2008 SR
INVESTMENT INCOME (LOSS)			
Trading income (loss), net	5	<u>86,022,482</u>	<u>(367,905,813)</u>
EXPENSES			
Management fees	6	(8,589,283)	(13,894,040)
Purification charges	7	(1,036,549)	(1,369,225)
Performance fees	6	(279,816)	-
Others		(37,070)	(42,898)
		<u>(9,942,718)</u>	<u>(15,306,163)</u>
NET INCOME (LOSS) FROM OPERATIONS		<u>76,079,764</u>	<u>(383,211,976)</u>

The accompanying notes 1 to 12 form part of these financial statements.

Al Rajhi Local Share Fund
 STATEMENT OF CASH FLOWS
 Year ended 31 December 2009

	2009 SR	2008 SR
OPERATING ACTIVITIES		
Net income (loss) from operations	76,079,764	(383,211,976)
Adjustment for:		
Movement in unrealized (gain) loss on trading investments	(289,785,962)	396,019,781
Changes in operating assets and liabilities:		
Trading investments	232,795,638	88,935,339
Dividend receivable	351,482	(7,463,306)
Other assets	-	1,913,554
Accrued expenses	291,145	15,000
Net cash from operating activities	<u>19,732,067</u>	<u>96,208,392</u>
FINANCING ACTIVITIES		
Proceeds from units sold	45,763,399	104,703,946
Value of units redeemed	(83,248,724)	(267,049,359)
Net cash used in financing activities	<u>(37,485,325)</u>	<u>(162,345,413)</u>
DECREASE IN BANK BALANCE	<u>(17,753,258)</u>	<u>(66,137,021)</u>
Bank balances at the beginning of the year	<u>23,862,722</u>	<u>89,999,743</u>
BANK BALANCE AT THE END OF THE YEAR	<u><u>6,109,464</u></u>	<u><u>23,862,722</u></u>
<u>Operational cash flows from dividends</u>		
Dividends received	<u><u>13,008,633</u></u>	<u><u>13,295,840</u></u>

The accompanying notes 1 to 12 form part of these financial statements.

Al Rajhi Local Share Fund

STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2009

	2009 SR	2008 SR
NET ASSET VALUE AT THE BEGINNING OF THE YEAR	<u>460,904,566</u>	<u>1,006,461,955</u>
CHANGES FROM OPERATIONS		
Net income (loss) from operations	<u>76,079,764</u>	<u>(383,211,976)</u>
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	45,763,399	104,703,946
Value of units redeemed	<u>(83,248,724)</u>	<u>(267,049,359)</u>
Net change from unit transactions	<u>(37,485,325)</u>	<u>(162,345,413)</u>
NET ASSET VALUE AT THE END OF THE YEAR	<u><u>499,499,005</u></u>	<u><u>460,904,566</u></u>

UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	2009 Units	2008 Units
UNITS AT THE BEGINNING OF THE YEAR	<u>2,221,472</u>	<u>2,713,746</u>
Units sold	209,146	320,266
Units redeemed	<u>(372,761)</u>	<u>(812,540)</u>
Net decrease in units	<u>(163,615)</u>	<u>(492,274)</u>
UNITS AT THE END OF THE YEAR	<u><u>2,057,857</u></u>	<u><u>2,221,472</u></u>

The accompanying notes 1 to 12 form part of these financial statements.

1 GENERAL

Al Rajhi Local Shares Fund (the Fund) is an open ended fund created by agreement between Al Rajhi Capital (the Fund Manager), a wholly owned subsidiary of the Al Rajhi Banking and Investment Corporation (the Bank), and investors (the Unitholders) in the Fund. The Fund Manager was previously known as Al Rajhi Financial Services Company. As of 23 March 2009, the name was changed to Al Rajhi Capital pursuant to an approval from relevant authority.

The Fund is designed for investors seeking capital appreciation. The assets of the Fund are invested in diversified local equity transactions and in mutual funds in accordance with Sharia principles. All the trading profits are reinvested in the Fund. The Fund was established on 10 June 1998.

The books and records of the Fund are maintained in Saudi Riyal (SR).

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the regulations) published by CMA on 22 Dhul Hijja 1427H (corresponding to 12 January 2007) detailing requirements for all funds within the Kingdom of Saudi Arabia.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

Revenue recognition

Dividend income is recognized when declared (i.e. when the Fund's right to receive the dividend is established).

Trading income includes all unrealized gains and losses from changes in fair value and related dividends from trading investments. Realised gains and losses on trading investments sold are determined on a weighted average cost basis.

Investment valuation

Equity Investments which are purchased for trading purposes are valued at their market price as at the balance sheet date. Investment in mutual funds are valued on the basis of net assets value published by the fund manager. Unrealised gains and losses on the revaluation of trading investments and realised gains and losses on the disposal of trading investments are recognised in the statement of operations.

Investment transactions

Equity investments transactions are accounted for as of the trade date.

Zakat and income tax

Zakat and income tax are the obligations of the Unitholders and are not provided for in the accompanying financial statements.

Al Rajhi Local Share Fund

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2009

4 TRADING INVESTMENTS

The composition of the trading investments portfolio is summarised below:

Description	% of Market value	2009	
		Market value SR	Cost SR
<i><u>Equity investments</u></i>			
Petrochemicals	32.78	158,944,736	157,892,206
Banks	16.31	79,054,219	84,271,564
Industry	11.06	53,599,635	49,985,382
Cement	7.33	35,542,226	53,402,942
Telecommunication	5.65	27,416,260	31,313,483
Energy and Utility	3.70	17,932,500	19,537,633
Agriculture and Food	3.32	16,113,116	23,994,421
Pharmaceutical	0.81	3,946,501	10,886,266
Others	18.86	91,438,177	125,756,149
	99.83	483,987,370	557,040,046
<i><u>Mutual Funds</u></i>			
Al Rajhi Commodities Mudaraba Fund – Saudi Riyal	0.15	726,392	706,796
Al Rajhi Commodities Mudaraba Fund – EURO	0.02	106,780	106,761
Total trading investments	100.00	484,820,542	557,853,602

Description	% of Market value	2008	
		Market value SR	Cost SR
<i><u>Equity investments</u></i>			
Industry	29.64	126,796,970	268,505,512
Telecommunication	13.01	55,646,051	110,254,210
Banks	10.39	44,462,712	70,955,273
Petrochemicals	7.74	33,131,030	54,471,437
Cement	7.30	31,226,985	74,290,240
Energy and Utility	5.61	23,990,000	31,729,343
Agriculture and Food	2.66	11,389,000	10,532,371
Pharmaceutical	0.72	3,084,035	10,730,679
Others	11.38	48,707,597	110,349,342
	88.45	378,434,380	741,818,407
<i><u>Mutual Fund</u></i>			
Al Rajhi Commodities Mudaraba Fund – Saudi Riyal	11.55	49,395,838	48,830,833
Total trading investments	100.00	427,830,218	790,649,240

Equity investments are traded on the Saudi stock exchange (Tadawul) and are unrated. The investments in mutual funds are also unrated. The Fund also does not have an internal grading mechanism. However, the Fund Manager seeks to limit its risk by monitoring investments sector exposures and setting limits for individual sectors.

Al Rajhi Local Share Fund

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2009

5 TRADING INCOME (LOSS), NET

	2009 SR	2008 SR
Dividend income	12,657,151	20,759,146
Realised (losses) gains	(216,420,631)	7,354,822
Movement in unrealised gains (losses)	289,785,962	(396,019,781)
	<u>86,022,482</u>	<u>(367,905,813)</u>

6 TRANSACTIONS WITH RELATED PARTIES

A subscription fee of 1% was paid directly by the subscribers to the Fund Manager upon subscription. In addition, the Fund Manager has the right to collectively charge the Fund at any time with any charges relating to the Fund.

The Fund pays to the Fund Manager a management fee calculated at an annual rate of 1.75% per annum calculated on the total assets at each valuation date. The fee is intended to compensate the Fund Manager for administration of the Fund. The management fees reflected in the statement of operations represent the fees charged by the Fund Manager during the period.

In line with the revised approved terms and condition, the Fund Manager is also entitled to a performance fee. The performance fee is charged on daily net assets value using the 20% of difference between Fund's performance and the underlying benchmark's performance.

Trade transactions on tadawul are executed through the Fund Manger. The Fund Manager also acts as the Custodian of the Fund's investments.

The Bank acts as the Fund's banker.

The Unitholders account at 31 December 2009 included 13.70 units (2008: 13.70 units) held by the employees of the Fund Manager.

7 PURIFICATION CHARGES

These represents charges incurred in respect of purification of the income generated from the investee companies in order to achieve a Sharia compliant return. These charges are calculated based on the Fund's Sharia Board approved formula and paid to charities recommended by the Fund's Sharia Board through the Fund Manager.

8 RISK MANAGEMENT

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments.

As of the balance sheet date, the Fund is not exposed to commission rate risk as its assets and liabilities are non-commission bearing.

31 December 2009

8 RISK MANAGEMENT (continued)***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk for its bank balances and dividend receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposures.

The table below shows the maximum exposure to credit risk for the components of the balance sheet

	2009 SR	2008 SR
Bank balances due from the Bank	6,109,464	23,862,722
Dividend receivable	8,890,144	9,241,626
Total exposure to credit risk	14,999,608	33,104,348

Equity price risk

Equity price risk is the risk that the fair value of equities changes as the result of changes in the levels of equity indices and the value of individual stocks.

The Fund's trading investments are subject to equity price risk. According to the Fund's management, the effect on the statement of operations as a result of a change in fair value of equity instruments due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in equity price 2009 %</i>	<i>Effect on statement of operations 2009 SR</i>	<i>Change in equity price 2008 %</i>	<i>Effect on statement of operations 2008 SR</i>
S & P Saudi Shariah Index	10%	26,619,305	10%	26,397,124

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Fund's terms and conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions. The Fund's securities are considered to be readily realisable as they are listed on the Saudi Arabian stock exchange. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates.

The Fund views the Saudi Riyal as its functional currency. As the Fund's financial assets and liabilities are denominated in its functional currency, the Fund is not subject to currency risk.

9 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balances, trading investments, dividend receivable and other assets.

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. For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

Trading investments are carried at fair value. The fair values of other financial instruments are not expected to be materially different from their carrying values.

10 LAST VALUATION DAY

The last valuation day of the year was 31 December 2009 (2008: 31 December 2008).

11 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.

12 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on 12 Rabi' II 1431H (Corresponding to 28 March 2010).