AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2018
together with the
INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Partners
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License No. 46/11/323 issued 11/3/1992

Independent auditors' 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 2018, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, 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 2018, 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 ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' 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.

Emphasis of Matter – Comparative information

We draw attention to 2(a) of the financial statements which describes that the Company was converted to a Closed Joint Stock Company from a Limited Liability Company, with effect from 1 March 2017. As a result, the comparative information presented is not comparable. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance are responsible 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 are responsible are responsible for overseeing the Company's financial reporting process.

Independent auditors' report

To the Shareholder of Al Rajhi Capital Company (continued)

Auditors' 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 auditors' 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 ISAs 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism 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 auditors' 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 auditors' 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

Abdullah Hamad Al Fozan
License No. 348

Al Riyadh: 13 Jumada II 1440H
Corresponding to: 19 February 2019

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KPMG Al Fozan & Partners
Certified Public Accountants

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Saudi Arabian Riyals)

	Notes	**31 December 2018**	31 December 2017	1 March 2017
Assets				
Property and equipment	*5*	**178,738**	303,573	570,404
Intangible assets	*6*	**14,662,363**	14,756,414	16,576,641
Investment properties	*7*	**1,297,590,446**	1,314,006,074	1,328,057,973
Investments	*8*	**861,358,128**	1,034,286,049	531,220,570
Employee loan	*9*	**1,758,000**	1,758,000	3,201,750
Non-current assets		**2,175,547,675**	2,365,110,110	1,879,627,338
Cash and cash equivalents	*10*	**59,194,115**	79,180,616	77,986,492
Investments	*8*	**300,875,539**	--	--
Murabaha receivables	*11*	**383,977,951**	425,109,169	376,543,923
Accrued income	*12*	**19,348,880**	13,850,467	20,334,282
Employee loan	*9*	**--**	4,710,750	4,710,750
Advances, prepayments and other receivables	*13*	**32,024,244**	116,983,991	7,327,780
Current assets		**795,420,729**	639,834,993	486,903,227
Total assets		**2,970,968,404**	3,004,945,103	2,366,530,565
Equity and liabilities				
Equity				
Share capital	*19*	**500,000,000**	500,000,000	500,000,000
Statutory reserve	*3.10*	**250,000,000**	250,000,000	250,000,000
Retained earnings		**2,082,725,338**	1,703,987,498	1,466,190,172
Total equity		**2,832,725,338**	2,453,987,498	2,216,190,172
Liabilities				
Employee benefit obligation	*14*	**40,578,870**	38,241,303	36,700,202
Non-current liability		**40,578,870**	38,241,303	36,700,202
Borrowing	*15*	**--**	402,700,000	--
Other payables and accruals	*16*	**77,378,510**	91,450,779	78,645,838
Due to a related party - Zakat payable	*17*	**10,556,714**	7,836,551	22,552,171
Provisions	*18*	**9,728,972**	10,728,972	12,442,182
Current liabilities		**97,664,196**	512,716,302	113,640,191
Total liabilities		**138,243,066**	550,957,605	150,340,393
Total equity and liabilities		**2,970,968,404**	3,004,945,103	2,366,530,565

The accompanying notes from 1 to 28 form an integral part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018
(Saudi Arabian Riyals)

	Notes	**For the year ended 31 December 2018**	For the period from 1 March 2017 to 31 December 2017
Operating income			
Income from brokerage services, net		**284,634,497**	194,351,207
Income from asset management services, net		**114,090,306**	75,074,967
Rental income on investment properties		**99,956,741**	79,982,008
Gains from investments, net		**1,273,806**	5,308,842
Special commission income on Murabaha receivables		**24,530,564**	19,157,921
Special commission income on short-term placements		**3,598,139**	-
Dividend income		**33,492,121**	2,715,889
Other operating income		**3,375,298**	597,809
Special commission expense		**(8,250,000)**	(3,010,000)
Total operating income		**556,701,472**	374,178,643
Operating expenses			
Salaries and employee related benefits		**(115,847,511)**	(87,346,525)
Depreciation and amortisation expense	*5,6,7*	**(22,184,733)**	(18,975,261)
Rental expense		**(4,145,934)**	(5,763,557)
Other general and administrative expenses	*20*	**(20,782,517)**	(15,313,962)
Promotion and marketing expenses		**(1,132,116)**	(1,115,682)
Credit impairment losses	*11,13*	**(3,314,107)**	(29,779)
Total operating expenses		**(167,406,918)**	(128,544,766)
Operating profit		**389,294,554**	245,633,877
Zakat charge	*17*	**(10,556,714)**	(7,836,551)
Profit for the year / period		**378,737,840**	237,797,326

The accompanying notes from 1 to 28 form an integral part of these financial statements.

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Saudi Arabian Riyals)

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
Profit for the year / period	**378,737,840**	237,797,326
Other comprehensive income for the year / period	**--**	--
Total comprehensive income for the year / period	**378,737,840**	237,797,326

The accompanying notes from 1 to 28 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 2018
(Saudi Arabian Riyals)

	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**
Balance as at 1 March 2017	500,000,000	250,000,000	1,466,190,172	2,216,190,172
Total comprehensive income				
Profit for the period	--	--	237,797,326	237,797,326
Other comprehensive income for the period	--	--	--	--
Total comprehensive income for the period	--	--	237,797,326	237,797,326
Balance as at 31 December 2017	500,000,000	250,000,000	1,703,987,498	2,453,987,498

The accompanying notes from 1 to 28 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 2018
(Saudi Arabian Riyals)

	Notes	**For the year ended 31 December 2018**	For the period from 1 March 2017 to 31 December 2017
Cash flows from operating activities			
Operating profit before Zakat		**389,294,554**	245,633,877
Adjustments for:			
Depreciation and amortisation	*5,6,7*	**22,184,733**	18,975,261
Gain on sale of property and equipment		**--**	(1,375)
Reversal of provisions	*18*	**(1,000,000)**	(1,713,210)
Special commission income on Murabaha receivables		**(24,530,564)**	(19,157,921)
Special commission income on short-term placements		**(3,598,139)**	--
Special commission expense		**8,250,000**	3,010,000
Employee benefit obligation expense	*14.1*	**5,988,131**	4,098,779
Provision for Murabaha receivables	*11.2*	**10,905**	29,779
Provision for rental receivables	*13.1*	**3,303,202**	--
Gains from investments, net		**(1,273,806)**	(5,308,842)
Changes in:			
Murabaha receivables		**65,650,877**	(29,441,394)
Accrued income		**(5,498,413)**	6,483,815
Employee loan		**4,710,750**	1,443,750
Advances, prepayments and other receivables		**81,656,545**	(109,656,211)
Other payables and accruals		**(14,072,269)**	15,509,233
Zakat paid	*17*	**(7,836,551)**	(22,552,171)
Employee benefit obligation paid	*14.1*	**(3,650,564)**	(2,557,678)
Net cash generated from operating activities		**519,589,391**	104,795,692
Cash flows from investing activities			
Acquisition of property and equipment	*5*	**(84,844)**	(66,308)
Acquisition of intangible assets	*6*	**(5,018,723)**	(2,771,172)
Addition to investment property	*7*	**(446,652)**	--
Acquisition of investments		**(1,059,989,099)**	(1,332,240,535)
Proceeds from sale of investments		**936,913,426**	834,483,898
Proceeds from sale of property and equipment		**--**	2,550
Net cash used in investing activities		**(128,625,892)**	(500,591,568)
Cash flows from financing activities			
Proceeds from borrowing		**--**	600,000,000
Repayment of borrowing		**(400,000,000)**	(200,000,000)
Financial charges paid		**(10,950,000)**	(3,010,000)
Net cash (used in) / generated from financing activities		**(410,950,000)**	396,990,000
(Decrease) / increase in cash and cash equivalents		**(19,986,501)**	1,194,124
Cash and cash equivalents at the beginning of the year / period		**79,180,616**	77,986,492
Cash and cash equivalents at the end of the year / period		**59,194,115**	79,180,616

The accompanying notes from 1 to 28 form an integral part of these financial statements.

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 numbered 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, King Fahad Road
P.O. Box 5561, Riyadh 11432
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 2018 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").

For all periods up to and including the period ended 31 December 2017, the Company prepared its financial statements in accordance with generally accepted accounting standards as issued by SOCPA ("SOCPA GAAP"). These financial statements for the year ended 31 December 2018 are the first financial statements of the Company prepared in accordance with IFRS, and accordingly IFRS 1 *First-time Adoption of International Financial Reporting Standards* have been applied. The date of transition to IFRS is 1 March 2017.

The Company was converted from a limited liability company to a closed joint stock company effective Jumada Al Thani 3, 1438H (corresponding to 1 March 2017). In accordance with the Company's By-laws, the first statutory fiscal period of the Company under the new legal status was from 1 March 2017 to 31 December 2017. Accordingly, the comparatives in these financial statements are presented for the period from 1 March 2017 to 31 December 2017.

The nature and amount of adjustments arising from the first-time adoption of IFRS is explained in Note 4 to the accompanying financial statements.

b) Basis of measurement

These financial statements have been prepared on a going concern basis under historical cost convention except for the investments in mutual funds which are carried at fair value through profit or loss ("FVTPL"), and employee benefit obligation which is 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.

2 BASIS OF PREPARATION (CONTINUED)

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 3.3 Impairment - Financial assets.

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 3.3 Impairment - Financial assets.

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) Financial assets derecognised during the period and write-offs of allowances related to assets that were written-off during the period.

2 BASIS OF PREPARATION (CONTINUED)

- 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.

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.

2 BASIS OF PREPARATION (CONTINUED)

- 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*.

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).

2 BASIS OF PREPARATION (CONTINUED)

- 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 properties

  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 methods to ensure that the method and periods of depreciation / amortisation are consistent with the expected pattern of economic benefits from those assets.

- 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 not yet effective and not early adopted by the Company

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2019 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS, 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 impact is not considered to be material to the Company.

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 amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period. The impact is not considered to be material to the Company.

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 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.

3.3 Financial instruments

The Company has early adopted IFRS 9 *'Financial Instruments'* from the date of transition to IFRS i.e. 1 March 2017. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 *'Financial Instruments'* have been recognised in retained earnings and reserves as at 1 March 2017.

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Business model assessment

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

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);
- 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;

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

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.

3.4 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Impairment of non-financial assets (continued)

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.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

3.5 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 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 expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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.

3.7 Investment properties

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.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the cost for subsequent accounting is the carrying value at the date of change/transfer. If owner-occupied property becomes an investment property, the Company accounts for it in accordance with the policy stated under property and equipment up to the date of change.

3.8 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Zakat and withholding tax

The Company does not file a separate Zakat to the General Authority of Zakat and Tax ("GAZT"), 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.

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.

3.10 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 2017: Nil).

3.11 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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 an asset manager for its funds and DPM products. Transaction price is the commission received by the Company, which is fixed based on a percentage of funds' net asset value ("NAV").
- 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)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.12 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

3.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As stated in note 2.1, these are the Company's first financial statements prepared in accordance with IFRS. The basis of preparation and significant accounting policies set out in note 2 and note 3 respectively, have been applied consistently in preparation of these financial statements.

Reconciliations of the primary statements

The reconciliations of the statements of financial position and equity as at 31 December 2017 and 1 March 2017 and reconciliation of comprehensive income for the period from 1 March 2017 to 31 December 2017, along with the description of the changes are detailed in note 4 (a) to 4 (e).

The transition from SOCPA GAAP to IFRS has not had a material impact on the statement of cash flows.

4 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

An explanation of the transition from SOCPA GAAP to IFRS is set out in the following tables:

(a) Reconciliation of financial position as at 31 December 2017

	Notes	31 December 2017			
Assets		**Balance as per SOCPA GAAP**	**Re-classification**	**Re-measurement**	**Balance as per IFRS**
Property and equipment	*4(e)(i)(A)*	15,059,987	(14,756,414)	--	**303,573**
Intangible assets	*4(e)(i)(A)*	--	14,756,414	--	**14,756,414**
Investment properties		1,314,006,074	--	--	**1,314,006,074**
Investments	*4(e)(i)(B)*	1,034,286,049	--	--	**1,034,286,049**
Employee loan		1,758,000	--	--	**1,758,000**
Non-current assets		**2,365,110,110**	**--**	**--**	**2,365,110,110**
Cash and cash equivalents		79,180,616	--	--	**79,180,616**
Murabaha receivables	*4(e)(i)(C) & 4(e)(ii)*	415,552,434	9,586,514	(29,779)	**425,109,169**
Accrued income	*4(e)(i)(C)*	23,436,981	(9,586,514)	--	**13,850,467**
Employee loan	*4(e)(i)(D)*	--	4,710,750	--	**4,710,750**
Advances, prepayments and other receivables	*4(e)(i)(D)*	121,694,741	(4,710,750)	--	**116,983,991**
Current assets		**639,864,772**	**--**	**(29,779)**	**639,834,993**
Total assets		**3,004,974,882**	**--**	**(29,779)**	**3,004,945,103**
Equity and liabilities					
Equity					
Share capital		500,000,000	--	--	**500,000,000**
Statutory reserve		250,000,000	--	--	**250,000,000**
Retained earnings	*4(e)(ii)*	1,703,140,893	876,384	(29,779)	**1,703,987,498**
Changes in fair value of available-for-sale ("AFS") investments	*4(e)(ii)*	876,384	(876,384)	--	**--**
Total equity		**2,454,017,277**	**--**	**(29,779)**	**2,453,987,498**
Liabilities					
Employee benefit obligation		38,241,303	--	--	**38,241,303**
Non-current liability		**38,241,303**	**--**	**--**	**38,241,303**
Borrowings		402,700,000	--	--	**402,700,000**
Other payable and accruals	*4(e)(i)(E)*	102,179,751	(10,728,972)	--	**91,450,779**
Due to a related party - Zakat payable		7,836,551	--	--	**7,836,551**
Provisions	*4(e)(i)(E)*	--	10,728,972	--	**10,728,972**
Current liabilities		**512,716,302**	**--**	**--**	**512,716,302**
Total liabilities		**550,957,605**	**--**	**--**	**550,957,605**
Total equity and liabilities		**3,004,974,882**	**--**	**(29,779)**	**3,004,945,103**

4 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

(b) Reconciliation of financial position as at 1 March 2017

	Notes	1 March 2017			
		Balance as per SOCPA GAAP	Re-classification	Re-measurement	Balance as per IFRS
Assets					
Property and equipment	*4(e)(i)(A)*	17,147,045	(16,576,641)	--	570,404
Intangible assets	*4(e)(i)(A)*	--	16,576,641	--	16,576,641
Investment properties		1,328,057,973	--	--	1,328,057,973
Investments	*4(e)(i)(B)*	531,220,570	--	--	531,220,570
Employee loan		3,201,750	--	--	3,201,750
Non-current assets		1,879,627,338	--	--	1,879,627,338
Cash and cash equivalents		77,986,492	--	--	77,986,492
Murabaha receivables	*4(e)(i)(C)*	364,162,031	12,381,892	--	376,543,923
Accrued income	*4(e)(i)(C)*	32,716,174	(12,381,892)	--	20,334,282
Employee loan	*4(e)(i)(D)*	--	4,710,750	--	4,710,750
Advances, prepayments and other receivables	*4(e)(i)(D)*	12,038,530	(4,710,750)	--	7,327,780
Current assets		486,903,227	--	--	486,903,227
Total assets		2,366,530,565	--	--	2,366,530,565
Equity and liabilities					
Equity					
Share capital		500,000,000	--	--	500,000,000
Statutory reserve		250,000,000	--	--	250,000,000
Retained earnings	*4(e)(ii)*	1,459,651,012	6,539,160	--	1,466,190,172
Changes in fair value of AFS investments	*4(e)(ii)*	6,539,160	(6,539,160)	--	--
Total equity		2,216,190,172	--	--	2,216,190,172
Liabilities					
Employee benefit obligation		36,700,202	--	--	36,700,202
Non-current liability		36,700,202	--	--	36,700,202
Other payable and accruals	*4(e)(i)(E)*	91,088,020	(12,442,182)	--	78,645,838
Due to a related party - zakat payable		22,552,171	--	--	22,552,171
Provisions	*4(e)(i)(E)*	--	12,442,182	--	12,442,182
Current liabilities		113,640,191	--	--	113,640,191
Total liabilities		150,340,393	--	--	150,340,393
Total equity and liabilities		2,366,530,565	--	--	2,366,530,565

4 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

(c) Reconciliation of equity

	31 December 2017	1 March 2017
Total equity under SOCPA GAAP	**2,454,017,277**	2,216,190,172
Transfer to retained earnings	**876,384**	6,539,160
Transition adjustments - AFS reserve transfer to retained earnings	**(876,384)**	(6,539,160)
Re-measurement of Murabaha receivables	**(29,779)**	--
Total equity under IFRS	**2,453,987,498**	2,216,190,172

(d) Reconciliation of comprehensive income for the period from 1 March 2017 to 31 December 2017:

	For the period from 1 March 2017 to 31 December 2017		
	SOCPA GAAP	Effect of transition to IFRS	IFRS
Operating income			
Income from brokerage services, net	**194,351,207**	**--**	**194,351,207**
Income from asset management services, net	**75,074,967**	--	**75,074,967**
Rental income from investment properties	**79,982,008**	--	**79,982,008**
Gain from investments, net *(note 4 (e)(ii))*	**10,971,618**	**(5,662,776)**	**5,308,842**
Special commission income on Murabaha receivable	**19,157,921**	--	**19,157,921**
Dividend income	**2,715,889**	--	**2,715,889**
Other operating income	**597,809**	--	**597,809**
Special commission expense	**(3,010,000)**	--	**(3,010,000)**
Total operating income	**379,841,419**	**(5,662,776)**	**374,178,643**
Operating expenses			
Salaries and employee related benefits	**(87,346,525)**	--	**(87,346,525)**
Depreciation and amortisation expense	**(18,975,261)**	--	**(18,975,261)**
Rental expense	**(5,763,557)**	--	**(5,763,557)**
Other general and administrative expenses	**(15,313,962)**	--	**(15,313,962)**
Promotion and marketing expenses	**(1,115,682)**	--	**(1,115,682)**
Credit impairment losses *(note 4 (e)(ii))*	**--**	**(29,779)**	**(29,779)**
Total operating expenses	**(128,514,987)**	**(29,779)**	**(128,544,766)**
Operating profit	**251,326,432**	**(5,692,555)**	**245,633,877**
Zakat charge	**(7,836,551)**	--	**(7,836,551)**
Profit for the period	**243,489,881**	**(5,692,555)**	**237,797,326**
Other comprehensive income for the period	**--**	--	**--**
Total comprehensive income for the period	**243,489,881**	**(5,692,555)**	**237,797,326**

4 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

(e) Notes to the reconciliation of equity and comprehensive income from SOCPA GAAP to IFRS

(i) Adjustments that do not impact equity

The following reclassification adjustments were made on transition to IFRS which had no impact on equity as at 31 December 2017 and 1 March 2017:

(A) Reclassification of property and equipment to intangible assets: On transition to IFRS, the Company reclassified its core and related systems software which were included in property and equipment to intangible assets in the statement of financial position. The impact arising from the above change is summarized as follows:

	31 December 2017	1 March 2017
Increase in intangible assets	14,756,414	16,576,641
Decrease in property and equipment	(14,756,414)	(16,576,641)

(B) Reclassification of the AFS investment to financial assets at FVTPL: On transition to IFRS, the Company reclassified investments in mutual funds from AFS category which was available under SOCPA GAAP to financial assets at fair value through profit or loss (FVTPL) under IFRS 9 *'Financial Instruments'*. The impact arising from the above change is summarized as follows:

	31 December 2017	1 March 2017
Increase in investments in mutual funds held at FVTPL	1,033,846,049	530,780,570
Decrease in AFS investments – mutual funds	(1,033,846,049)	(530,780,570)

(C) Reclassification of murabaha receivables and murabaha accrued income to financial assets at amortised cost: On transition to IFRS, the classification of murabaha receivables at amortised cost resulted in the reclassification of accrued income to murabaha receivables. The impact arising from the above changes are summarized as follows:

	31 December 2017	1 March 2017
Increase in Murabaha receivables	9,586,514	12,381,892
Decrease in accrued income	(9,586,514)	(12,381,892)

(D) Reclassification of advances, prepayment and other receivables to employee loan: On transition to IFRS, the Company reclassified employee loan which was included in advances, prepayments and other receivable to employee loan as a separate line item in the statement of financial position.. The impact arising from the above change is summarized as follows:

	31 December 2017	1 March 2017
Increase in employee loan	4,710,750	4,710,750
Decrease in advances, prepayment and other receivable	(4,710,750)	(4,710,750)

4 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

(i) Adjustments that do not impact equity (continued)

(E) Reclassification of other payable and accruals to provisions: On transition to IFRS, the Company reclassified provisions which were included in other payables and accruals to provisions as a separate line item in the statement of financial position. The impact arising from the above change is summarized as follows:

	31 December 2017	1 March 2017
Increase in provisions	10,782,972	12,442,182
Decrease in other payables and accruals	(10,782,972)	(12,442,182)

(ii) Adjustments that impact equity

- **Adjustment to gains from investments, net:** On 1 March 2017, since the investments in mutual funds are classification as FVTPL under IFRS 9 *'Financial Instruments'*, the unrealized profit of SR 6,539,160 held in AFS reserve under SOCPA GAAP was transferred to retained earnings. Further, on 31 December 2017 the unrealized profit SR 876,384 held in AFS reserve was also transferred to retained earnings. Therefore, for the period from 1 March 2017 to 31 December 2017, a loss of SR 5,662,776 was transferred to the statement of profit or loss.

- **Re-measurement of Murabaha receivables:** For the period from 1 March 2017 to 31 December 2017, the measurement of the ECL under *IFRS 9 'Financial Instruments'* resulted in re-measurement of Murabaha receivables and a credit impairment loss amounting to SR 29,779 was recorded in the statement of profit or loss.

5 PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Computer hardware	Total
Cost:					
Balance at 1 March 2017	730,686	994,274	390,000	1,924,002	4,038,962
Additions	--	52,208	--	14,100	66,308
Disposals	--	(11,612)	--	(35,295)	(46,907)
Balance at 31 December 2017	730,686	1,034,870	390,000	1,902,807	4,058,363
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**
Accumulated depreciation:					
Balance at 1 March 2017	647,647	707,464	368,337	1,745,110	3,468,558
Charge for the period	47,407	150,614	21,663	112,279	331,963
Disposals	--	(11,602)	--	(34,129)	(45,731)
Balance at 31 December 2017	695,054	846,476	390,000	1,823,260	3,754,790
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**
Carrying amounts:					
Balance at 1 March 2017	83,039	286,810	21,663	178,892	570,404
Balance at 31 December 2017	35,632	188,394	--	79,547	303,573
Balance at 31 December 2018	**17**	**108,735**	**--**	**69,986**	**178,738**

6 INTANGIBLE ASSETS

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
Cost:		
At the beginning of the year / period	**40,230,451**	37,459,279
Additions	**5,018,723**	2,771,172
At the end of the year / period	**45,249,174**	40,230,451
Accumulated amortization:		
At the beginning of the year / period	**25,474,037**	20,882,638
Charge for the year / period	**5,112,774**	4,591,399
At the end of the year / period	**30,586,811**	25,474,037
Carrying amounts	**14,662,363**	14,756,414

Intangible assets represent core and related systems softwares; work in progress in respect of development / improvements to systems softwares. As at 31 December 2018, intangible assets include work in progress amounting to SR 3,161,067 (31 December 2017: SR 892,998).

7 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 March 2017	811,670,934	538,329,066	1,350,000,000
Balance at 31 December 2017	811,670,934	538,329,066	1,350,000,000
Balance at 1 January 2018	**811,670,934**	**538,329,066**	**1,350,000,000**
Additions during the year	**-**	**446,652**	**446,652**
Balance at 31 December 2018	**811,670,934**	**538,775,718**	**1,350,446,652**
Accumulated depreciation:			
Balance at 1 March 2017	--	(21,942,027)	(21,942,027)
Charge for the period	--	(14,051,899)	(14,051,899)
Balance at 31 December 2017	--	(35,993,926)	(35,993,926)
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)**
Carrying amounts:			
Balance at 1 March 2017	811,670,934	516,387,039	1,328,057,973
Balance at 31 December 2017	811,670,934	502,335,140	1,314,006,074
Balance at 31 December 2018	**811,670,934**	**485,919,512**	**1,297,590,446**

7 INVESTMENT PROPERTIES (CONTINUED)

Investment properties comprise of the following:

			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**

			31 December 2017		
Category	Location	Cost	Accumulated depreciation	Carrying amounts	Fair value
Distribution Centre	Riyadh, KSA	393,764,675	12,761,667	381,003,008	458,160,000
Mall	Jeddah, KSA	362,193,837	5,085,868	357,107,969	364,690,000
Warehouse	Jebel Ali, UAE	227,224,834	13,525,288	213,699,546	252,313,600
Commercial Headquarter	Riyadh, KSA	168,537,563	1,306,400	167,231,163	171,900,000
Mall	Jeddah, KSA	139,804,667	1,782,360	138,022,307	139,352,500
Warehouse	Riyadh, KSA	58,474,424	1,532,343	56,942,081	59,621,000
As at 31 December 2017		1,350,000,000	35,993,926	1,314,006,074	1,446,037,100

Investment properties in the Kingdom of Saudi Arabia are legally owned by Al Rajhi Development Company, a wholly owned subsidiary of the Parent. Further, investment property in the United Arab Emirates is legally owned by Privileged Warehouses Company3, 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 2018	For the period from 1 March 2017 to 31 December 2017
Rental income	**99,956,741**	79,982,006
Cost of income recognised in other general and administrative expenses	**(20,071,755)**	(14,647,946)
	79,884,986	65,334,060

7 INVESTMENT PROPERTIES (CONTINUED)

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

	31 December 2018	31 December 2017
Within one year	**99,191,887**	100,877,368
Later than one year but not later than 5 years	**366,908,277**	333,977,953
Later than 5 years	**266,097,747**	276,925,191
	732,197,912	711,780,512

8 INVESTMENTS

Investments portfolio are summarised as follows:

	31 December 2018	31 December 2017	1 March 2017
Non-current			
Investments in mutual funds held at fair value through profit or loss ("FVTPL") *(note 8.1)*	**860,918,128**	1,033,846,049	530,780,570
Equity securities	**440,000**	440,000	440,000
	861,358,128	1,034,286,049	531,220,570
Current			
Short-term placement *(note 8.2)*	**300,875,539**	--	--
	1,162,233,667	1,034,286,049	531,220,570

8.1 The table below summarises the investments in mutual funds:

	31 December 2018	31 December 2017	1 March 2017
Quoted			
Al Rajhi Commodity Fund	**412,665,650**	569,479,468	322,011,540
Al Rajhi REIT Fund	**97,196,665**	--	--
Al Rajhi Sukuk Fund	**5,134,400**	5,075,320	50,869,960
Al Rajhi MENA Fund	**4,310,600**	4,143,365	4,311,670
Al Rajhi European Real Estate Fund	--	54,836,027	75,000,000
Al Rajhi Real Estate Income Fund	--	58,071,334	60,435,000
Al Rajhi Saudi Equity Fund	--	--	18,152,400
	519,307,315	691,605,514	530,780,570
Unquoted			
Alinma Makkah Real Estate Fund	**341,610,813**	342,240,535	--
	860,918,128	1,033,846,049	530,780,570

8 INVESTMENTS

8.2 This represents a short-term placement of SR 300 million entered during the year 2018. The tenor of the placement is 6 months and carries mark-up at commercial market rates. The reconciliation of the carrying amount is as follows:

	31 December 2018	31 December 2017	1 March 2017
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	--	--

9 EMPLOYEE LOAN

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

	31 December 2018	31 December 2017	1 March 2017
Non-current	**1,758,000**	1,758,000	3,201,750
Current	**--**	4,710,750	4,710,750
	1,758,000	6,468,750	7,912,500

10 CASH AND CASH EQUIVALENTS

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

11 MURABAHA RECEIVABLES

Murabaha receivables are as follows:

	31 December 2018	31 December 2017	1 March 2017
Gross murabaha receivables	**390,972,259**	434,547,940	383,721,767
less: Unearned profit	**(15,914,909)**	(18,995,506)	(19,559,736)
Principal outstanding	**375,057,350**	415,552,434	364,162,031
Accrued profit on principal outstanding	**8,961,285**	9,586,514	12,381,892
Less: Allowance for credit impairment losses on murabaha receivables *(note 11.1)*	**(40,684)**	(29,779)	--
	383,977,951	425,109,169	376,543,923

As at 31 December 2018, murabaha receivables have a principal amount outstanding of SR 375.1 million (31 December 2017: SR 415.6 million) with original maturity tenure ranging from 3 to 12 months (31 December 2017: 3 to 12 months). Further, these murabaha receivables carry profit rates ranging from 3.30% to 9.60% (31 December 2017: 3.90% to 9.00%). As at 31 December 2018, accrued profit from murabaha receivables amounts to SR 9.0 million (31 December 2017: SR 9.6 million).

11 MURABAHA RECEIVABLES (CONTINUED)

11.1 The movement in provision for murabaha receivables is as follows:

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
At the beginning of the year / period	**29,779**	--
Charge for the year / period	**10,905**	29,779
At the end of the year / period	**40,684**	29,779

11.2 The table below summarises murabaha receivables as per the main business segments of the Company:

	31 December 2018	31 December 2017	1 March 2017
Corporate customers	**--**	102,306,932	126,519,480
Retail customers	**384,018,635**	322,832,016	250,024,443
	384,018,635	425,138,948	376,543,923

12 ACCRUED INCOME

	31 December 2018	31 December 2017	1 March 2017
Fund management fees *(note 23.2)*	**17,796,231**	10,799,649	19,106,676
Others	**1,552,649**	3,050,818	1,227,606
	19,348,880	13,850,467	20,334,282

13 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018	31 December 2017	1 March 2017
Gross rental receivables	**20,058,191**	--	--
Less: Allowance for credit impairment losses *(note 13.1)*	**(3,303,202)**	--	--
Net rental receivables	**16,754,989**	--	--
Advance against investment in Al Rajhi Real Estate Investment Trust ("REIT") *(note 23.2)*	**2,000,000**	112,646,490	--
Receivables from REIT *(note 23.2)*	**4,931,808**	--	--
Due from the Parent *(note 23.2)*	**3,140,514**	40,900	--
Prepayments	**3,584,852**	3,865,461	6,784,936
Advances to employees	**481,215**	259,065	465,611
Others	**1,130,866**	172,075	77,233
	32,024,244	116,983,991	7,327,780

13 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

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

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
At the beginning of the year / period	**--**	--
Charge for the year / period	**3,303,202**	--
At the end of the year / period	**3,303,202**	--

14 EMPLOYEE BENEFIT OBLIGATION

14.1 The movement in employee benefit obligation is as follows:

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
At the beginning of the year / period	**38,241,303**	36,700,202
Current service cost	**4,600,131**	3,948,261
Financing cost	**1,388,000**	150,518
Amount recognised in the statement of profit or loss	**5,988,131**	4,098,779
Benefits paid during the year / period	**(3,650,564)**	(2,557,698)
At the end of the year / period	**40,578,870**	38,241,303

14.2 Principal actuarial assumptions

	31 December 2018	31 December 2017
Discount rate	**4.70%**	4.00%
Future salary increases	**4.00%**	2.50%
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 benefit obligation 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 benefit obligation. The average duration of the employment benefit obligation was 9.9 years.

Salary increases

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

14 EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

14.2 Principal actuarial assumptions (continued)

Turnover

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

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

	31 December 2018	31 December 2017
Discount rate		
1 % increase	**(3,208,000)**	(2,910,000)
1% decrease	**3,713,000**	3,368,000
Future salary increases		
1% increase	**3,702,000**	3,385,000
1% decrease	**(3,257,000)**	(2,977,000)
Turnover		
20% increase	**(211,000)**	104,000
20% decrease	**176,000**	(202,000)

14.4 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.

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.

15 BORROWING

	31 December 2018	31 December 2017	1 March 2017
Borrowing	--	400,000,000	--
Accrued special commission expense	--	2,700,000	--
	--	402,700,000	--

During the period from 1 March 2017 to 31 December 2017, the Company obtained a short-term Murabaha financing of SR 400 million from the Parent at a commercial rate of 2.7% per annum. There were no loan covenants attached to the above financing facility. During the year 2018, this borrowing was fully repaid by the Company.

16 OTHER PAYABLES AND ACCRUALS

	31 December 2018	31 December 2017	1 March 2017
Payable to charities *(note 16.1)*	**20,701,401**	58,410,433	55,639,324
Staff bonus	**21,787,320**	19,937,511	--
Subscriptions	**2,478,985**	1,297,430	2,966,959
Accrued rent	**2,000,000**	2,000,000	--
VAT payable	**1,885,223**	--	--
Unearned rental income	**14,307,148**	1,837,624	8,824,530
Due to the Parent *(note 23.2)*	**660,917**	90,344	--
Others	**13,557,516**	7,877,437	11,215,025
	77,378,510	91,450,779	78,645,838

16.1 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 period / 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 2018	For the period from 1 March 2017 to 31 December 2017
At the beginning of the year / period	**58,410,433**	55,639,324
Net additions during the year / period	**15,414**	5,560,541
Payments made during the year / period	**(37,724,445)**	(2,789,432)
At the end of the year / period	**20,701,401**	58,410,433

17 DUE TO A RELATED PARTY- ZAKAT PAYABLE

The Company does not file a separate Zakat return with the General Authority of Zakat and Tax ("GAZT") as the Parent files a consolidated / single Zakat return based on its consolidated Zakat base and settle the Zakat liability with the GAZT. Accordingly, the Company is not required to make any payment to the GAZT.

17.1 The movement of Zakat payable is as follows:

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
At the beginning of the year / period	**7,836,551**	22,552,171
Charge for the year / period *(note 17.2)*	**10,556,714**	7,836,551
Payments made during the year / period	**(7,836,551)**	(22,552,171)
At the end of the year / period	**10,556,714**	7,836,551

17 DUE TO A RELATED PARTY- ZAKAT PAYABLE (CONTINUED)

17.2 Zakat charge for the current year amounted to SR 10,556,714 (for the period from 1 March 2017 to 31 December 2017: SR 7,836,551). This Zakat charge represents the Company's portion of Zakat allocated by the Parent.

18 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 2018	For the period from 1 March 2017 to 31 December 2017
At the beginning of year / period	**10,728,972**	12,442,182
Reversals during the year / period	**(1,000,000)**	(1,713,210)
At the end of the year / period	**9,728,972**	10,728,972

19 SHARE CAPITAL

	31 December 2018	31 December 2017	1 March 2017
Number of Ordinary shares	**50,000,000**	50,000,000	50,000,000
Ordinary shares (amount)	**500,000,000**	500,000,000	500,000,000

19.1 The Company was converted from a limited liability company to a closed joint stock company on 3 Jumadah Al Thani 1438H (corresponding to 1 March 2017). Upon the change of legal status, the Company, with the approval of the Board of Directors, changed the number of its ordinary shares and value of each ordinary share to 50,000,000 and SR 10 respectively. Previously, share capital was divided into 100,000 shares of SR 5,000 each.

The Company's share capital was wholly owned by Al Rajhi Banking and Investment Corporation as of 31 December 2018, 31 December 2017 and 1 March 2017.

20 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2018	For the period from 1 March 2017 to 31 December 2017
IT support	**4,335,840**	3,619,011
Professional fees	**3,595,294**	1,310,409
IT licenses	**3,221,451**	3,267,996
Subscriptions	**2,062,554**	1,419,706
Utilities	**1,439,325**	840,696
Cleaning expenses	**1,258,753**	977,378
Telecommunication	**1,022,087**	969,321
Directors' remuneration	**919,000**	790,000
Professional indemnity insurance	**664,795**	637,210
Shariah Board fees	**400,000**	290,000
Regulatory fees	**349,525**	333,817
Business travel & entertainment	**283,670**	200,378
Client compensation on operation losses	**194,491**	109,995
Repair and maintenance	**83,671**	459,810
Other	**952,061**	288,235
	20,782,517	15,513,962

21 FINANCIAL INSTRUMENTS – FAIR VALUES

21.1 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.

21 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)

21.1 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	--	--	40,484,918	40,484,918	--	--	--	--
	--	--	40,484,918	40,484,918	--	--	--	--

21 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)

21.1 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 2017								
Financial assets								
Financial assets measured at fair value								
Investments	1,034,286,049	--	--	1,034,286,049	-	691,605,514	342,680,535	1,034,286,049
Financial assets not measured at fair value								
Cash and cash equivalents	--	--	79,180,615	79,180,615	--	--	--	--
Murabaha receivables	--	--	425,109,169	425,109,169	--	--	--	--
Employee loan	--	--	6,468,750	6,468,750	--	--	--	--
Accrued income	--	--	13,850,467	13,850,467	--	--	--	--
Advances and other receivables	--	--	113,118,530	113,118,530	--	--	--	--
	1,034,286,049	--	637,727,531	1,672,013,580	--	691,605,514	342,680,535	1,034,286,049
Financial liabilities								
Financial liabilities not measured at fair value								
Borrowings	--	--	402,700,000	402,700,000	--	--	--	--
Other payable and accruals	--	--	31,202,722	31,202,722	--	--	--	--
	--	--	433,902,722	433,902,722	--	--	--	--

21 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)

21.2 Fair valuation techniques

Financial assets at fair value through profit or loss classified as Level 2 include 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 equity securities recorded at cost and an unquoted mutual fund.

21.3 Fair value transfers

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

22 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

22.1 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 2018	31 December 2017	1 March 2017
Cash and cash equivalents	**59,194,115**	79,180,616	77,986,492
Murabaha receivables – gross	**384,018,644**	425,138,948	376,543,923
Investments - gross	**300,875,539**	--	--
Accrued income	**19,348,880**	13,850,467	20,334,282
Employee loan	**1,758,000**	6,468,750	7,912,500
Advances and other receivables - gross	**31,742,594**	113,118,530	542,844
Total	**796,937,772**	637,757,311	483,320,041

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 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 the 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 2018	31 December 2017
Murabaha receivables - gross	**384,018,635**	425,109,169
Fair value of collateral held against the receivable	**839,862,831**	948,891,556

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.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 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.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 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 0.41% considering the Stable Market Assumption whereas, average of LGDs across the periods has been taken to arrive at weighted average LGD of 2.49% 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.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 Credit risk (continued)

Credit risk measurement

g) Loss allowance

(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**

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**

(i) Murabaha receivables

	31 December 2017			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Carrying amount	424,969,984	139,185	--	425,109,169
Expected Credit Loss	(29,768)	(11)	--	(29,779)
Net carrying amount	424,940,216	139,174	--	425,079,390

As at 31 December 2017, there was no exposure to rental receivables.

At 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
Retail customers	**384,018,635**	322,832,015
Corporate customers	**20,058,191**	102,306,933
	404,076,826	425,138,948

At 31 December 2018, the carrying amount of the Company's most significant customer was SR 49.99 million (2017: SR 101.02 million).

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 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 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total**
Murabaha receivables				
At the beginning of the year	**29,768**	**11**	**--**	**29,779**
Net re-measurement of loss allowance	**10,916**	**(11)**	**--**	**10,905**
At the end of the year	**40,684**	**--**	**--**	**40,684**

	For the period from 1 March 2017 to 31 December 2017			
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Murabaha receivables				
At the beginning of the period	--	--	--	--
Net re-measurement of loss allowance	29,768	11	--	29,779
At the end of the period	29,768	11	--	29,779

As at 31 December 2017, there was no exposure to rental receivables.

22.2 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 and 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.

22 FINANCIAL RISK MANAGEMENT (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 the 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 2018**	For the period from 1 March 2017 to 31 December 2017
±5	**±25,965,366**	±34,580,276
±10	**±51,930,732**	±69,160,551

22.3 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 2018	**Total**	**0 - 1 year**	**1 - 5 years**	**No fixed maturity**
Non-derivative financial liabilities				
Other payables and accruals	**40,484,918**	**40,484,918**	**--**	**--**
31 December 2017				
Non-derivative financial liabilities				
Other payables and accruals	31,202,722	31,202,722	--	--
Borrowings	402,700,000	402,700,000	--	--
	433,902,722	433,902,722	--	--

23 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.

23.1 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 2018	For the period from 1 March 2017 to 31 December 2017
Al Rajhi Banking and Investment Corporation, the Parent	IT support expenses	**4,335,840**	3,619,011
	Rental of office space	**3,084,248**	3,253,540
	Rental of investment centres	**--**	3,052,958
	Reversal of excess rental	**--**	(1,856,359)
	Financial charges on borrowing	**8,250,000**	3,010,000
	Fee for transfers	**378,000**	435,883
	Borrowing (repaid) / availed	**(400,000,000)**	400,000,000
	Withholding tax	**1,271,490**	468,920
	IPO service fee receivable from the Parent	**3,151,014**	--
	Others	**45,500**	10,900
Board of directors members	Remunerations	**919,000**	790,000
	Board meeting expenses	**14,888**	5,352
Al Rajhi Company for Management Services, a fellow subsidiary	Outsourcing of staff	**499,900**	205,384
Al Rajhi Takaful Agency Company, a fellow subsidiary	Insurance	**2,895,383**	2,648,387
Al Fursan, common directorship	Business travel and air tickets	**57,813**	17,427
Key management personnel	Employee benefit obligation	**794,244**	697,218
	Salaries	**5,944,044**	4,278,393
	Allowances	**2,926,869**	2,144,427
	Annual and periodic bonuses	**6,982,490**	9,040,694
All Funds managed by the Company	Income from asset management services	**73,886,163**	49,860,269
Al Rajhi REIT, a fund managed by the Company	Advance to REIT	**(110,646,490)**	112,646,490
	Expenses incurred on behalf of REIT	**1,467,405**	--

23 RELATED PARTY TRANSACTIONS AND BALANCES

23.2 Related parties balance

Significant balances with related parties are as follows:

Related party	Nature of transaction	31 December 2018	31 December 2017
Al Rajhi Banking and Investment Corporation, the Parent	IPO service fee receivable from the Parent	**2,748,450**	--
	Fee for transfers	**126,000**	30,000
	Others	**266,064**	10,900
	Due from the Parent *(note 13)*	**3,140,514**	40,900
	Custodian fee	**618,340**	15,750
	Withholding tax	**42,577**	74,594
	Due to the Parent *(note 16)*	**660,917**	90,344
	Due to a related party – zakat payable *(note 17)*	**10,556,714**	7,836,551
	Borrowings *(note 15)*	**--**	402,700,000
Al Rajhi Real Estate Investment Trust (REIT)	Advance to REIT	**2,000,000**	112,646,490
	Receivable from REIT	**4,931,808**	--
All Funds managed by the Company	Accrued management fee	**17,796,231**	10,799,649
Board of directors members	Remunerations	**919,000**	948,000
Key management personnel	Employee benefit obligation	**4,261,577**	3,467,333
	Annual and periodic bonuses	**6,982,490**	9,040,694
	Employee loan	**1,758,000**	6,468,750

24 CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2018, the Company has capital commitments of SR 6,304,907 (2017: SR 616,313).

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

	31 December 2018	31 December 2017
Within one year	**648,993**	254,204
Later than one year but not later than 5 years	**601,292**	933,946
	1,250,285	1,188,150

25 CLIENTS' CASH ACCOUNTS

At 31 December 2018, the Company was holding clients' cash accounts amounting to SR 4 billion (31 December 2017: SR 4 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.

26 ASSETS UNDER MANAGEMENT

The Company manages investment portfolios and mutual funds on behalf of its customers, which amounts to SR 41 billion as at 31 December 2018 (31 December 2017: SR 27 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.

27 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 2018 SAR'000	31 December 2017 SAR'000
Capital base:		
Tier 1 Capital	**2,818,063**	2,453,141
Tier 2 Capital	**--**	876
Total capital base	**2,818,063**	2,454,017
Minimum capital requirement:		
Market risk	**--**	--
Credit risk	**1,093,799**	1,164,368
Operational risk	**80,592**	84,312
Total minimum capital required	**1,174,391**	1,248,680
Capital adequacy ratio:		
Total capital ratio (time)	**2.40**	1.97
Surplus in capital	**1,643,672**	1,205,337

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.

27 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.

28 DATE OF AUTHORIZATION

These financial statements were authorized for issue on 10 February 2019 by the management of Al Rajhi Capital Company.