

**Al Rajhi Commodities Mudaraba
Fund – United States Dollar
(Managed by Al Rajhi Capital)**

FINANCIAL STATEMENTS

31 DECEMBER 2016

AUDITORS' REPORT TO THE UNITHOLDERS OF AL RAJHI COMMODITIES MUDARABA FUND- UNITED STATES DOLLAR

Scope of audit

We have audited the accompanying balance sheet of Al Rajhi Commodities Mudaraba Fund- United States Dollar ("the Fund") as at 31 December 2016 and the related statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2016 and the results of its operations, cash flows and changes in its net assets for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young


Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437



Riyadh: 28 Jumad Thani 1438H
(27 March 2017)

Al Rajhi Commodities Mudaraba Fund – United States Dollar

BALANCE SHEET

As at 31 December 2016

	<i>Notes</i>	2016 USD	2015 USD
ASSETS			
Bank balances		6,866,613	7,584,446
Trading investments	4	13,693,706	9,788,881
Money market placements	5	134,000,000	71,400,000
Held to maturity investments	6	7,566,100	16,725,351
Accrued special commission		604,672	424,906
		162,731,091	105,923,584
LIABILITY			
Accrued expenses		9,303	9,028
UNITSHOLDERS' FUND			
Net assets		162,721,788	105,914,556
Units in issue		75,315	49,861
Per unit value		USD 2,160.55	USD 2,124.20

The accompanying notes 1 to 11 form an integral part of these financial statements.

Al Rajhi Commodities Mudaraba Fund – United States Dollar

STATEMENT OF OPERATIONS

Year ended 31 December 2016

	Notes	2016 USD	2015 USD
INVESTMENT INCOME			
Special commission income		2,164,747	1,488,432
Trading income	7	254,287	113,113
		<u>2,419,034</u>	<u>1,601,545</u>
EXPENSES			
Management fees	8	(345,431)	(238,100)
Others		(12,917)	(11,694)
		<u>(358,348)</u>	<u>(249,794)</u>
NET INCOME FROM OPERATIONS		<u><u>2,060,686</u></u>	<u><u>1,351,751</u></u>

The accompanying notes 1 to 11 form an integral part of these financial statements.

Al Rajhi Commodities Mudaraba Fund – United States Dollar

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	2016 USD	2015 USD
OPERATING ACTIVITIES		
Net income from operations	2,060,686	1,351,751
Adjustment for:		
Movement in unrealized (gain) loss on trading investments	(72,814)	140,840
Changes in operating assets and liabilities:		
Trading investments	(3,832,011)	7,629,498
Money market placements	(62,600,000)	75,399,486
Held to maturity investments	9,159,251	212,112
Accrued special commission	(179,766)	426,625
Accrued expenses	275	747
Net cash (used in) from operating activities	(55,464,379)	85,161,059
FINANCING ACTIVITIES		
Proceeds from units sold	137,052,530	20,634,029
Value of units redeemed	(82,305,984)	(105,154,373)
Net cash from (used in) financing activities	54,746,546	(84,520,344)
(DECREASE) INCREASE IN BANK BALANCES	(717,833)	640,715
Bank balances at the beginning of the year	7,584,446	6,943,731
BANK BALANCES AT THE END OF THE YEAR	6,866,613	7,584,446
<u>Operational cash flows from special commission income</u>		
Special commission income received	1,984,981	1,915,057

The accompanying notes 1 to 11 form an integral part of these financial statements.

Al Rajhi Commodities Mudaraba Fund – United States Dollar

STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2016

	2016 USD	2015 USD
NET ASSET VALUE AT THE BEGINNING OF THE YEAR	<u>105,914,556</u>	<u>189,083,149</u>
CHANGES FROM OPERATIONS		
Net income from operations	<u>2,060,686</u>	<u>1,351,751</u>
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	137,052,530	20,634,029
Value of units redeemed	<u>(82,305,984)</u>	<u>(105,154,373)</u>
Net change from unit transactions	<u>54,746,546</u>	<u>(84,520,344)</u>
NET ASSET VALUE AT THE END OF THE YEAR	<u><u>162,721,788</u></u>	<u><u>105,914,556</u></u>

UNIT TRANSACTIONS

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

	2016 Units	2015 Units
UNITS AT THE BEGINNING OF THE YEAR	<u>49,861</u>	<u>89,877</u>
Units sold	63,789	9,753
Units redeemed	<u>(38,335)</u>	<u>(49,769)</u>
Net increase (decrease) in units	<u>25,454</u>	<u>(40,016)</u>
UNITS AT THE END OF THE YEAR	<u><u>75,315</u></u>	<u><u>49,861</u></u>

The accompanying notes 1 to 11 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

1 GENERAL

Al Rajhi Commodities Mudaraba Fund – United States Dollar (“the Fund”) is an open ended fund created by an agreement between Al Rajhi Capital (the Fund Manager), a wholly owned subsidiary of the Al Rajhi Banking and Investment Corporation (the Bank), and investors (the Unitholders) in the Fund.

The Fund is designed for investors seeking current income consistent with the preservation of capital and liquidity. The assets of the Fund are invested in Mudaraba funds and in Mudaraba transactions executed in accordance with Sharia principles. Mudaraba comprises purchases of goods and commodities from approved suppliers against immediate payment and selling them to reputed organisations on deferred payment terms, thereby generating a profit. All the trading profits are reinvested in the Fund. The Fund was established on 14 December 1990.

The books and records of the Fund are maintained in the United States Dollar (USD).

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) detailing requirements for all investments funds operating within the Kingdom of Saudi Arabia and published by the Capital Market Authority (the “CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006). The Regulations were further amended on 16 Sha’aban 1437 (corresponding to 23 May 2016) (“Amended Regulations”). The Fund Manager believes that the Amended Regulations shall be applied from year 2017.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

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

Revenue recognition

Special commission income from Mudaraba investment is recognized on an effective yield basis.

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

Investment valuation

Money market placements are carried at cost.

Investments which are purchased for trading purposes are valued at their market price. Investments in mutual funds are valued on the basis of net assets value published by the fund manager.

Investments that are bought with the intention of being held to maturity are carried at cost (adjusted for any premium or discount on an effective yield basis), less provision for any permanent decline in value.

Investment transactions

Investment transactions are accounted for as of the trade date.

Zakat and income tax

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

Al Rajhi Commodities Mudaraba Fund – United States Dollar

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2016

4 TRADING INVESTMENTS

Investments held for trading comprise the following as at 31 December

	<i>Market value USD</i>	<i>Cost USD</i>	<i>Unrealised gains USD</i>
<u>2016</u>			
Al Rajhi Commodity Mudaraba Fund – Saudi Riyal	<u>13,693,706</u>	<u>13,523,298</u>	<u>170,408</u>
<u>2015</u>			
Al Rajhi Commodity Mudaraba Fund – Saudi Riyal	<u>9,788,881</u>	<u>9,691,287</u>	<u>97,594</u>

Investments in mutual funds are unrated. The Fund also does not have an internal grading mechanism.

5 MONEY MARKET PLACEMENTS

Money market placements comprise placements with counterparties in Saudi Arabia and the rest of the Middle East.

Counter-parties as at the year end have investment grade credit rating.

6 HELD TO MATURITY INVESTMENTS

The composition of investments which are held to maturity is summarised below:

	<i>Maturity date</i>	<i>2016 USD</i>	<i>2015 USD</i>
Sharjah Islamic Bank Sukuk	25 May 2016	-	5,054,030
First Gulf Bank Sukuk Company	2 August 2016	-	4,055,284
First Gulf Bank Sukuk Company	18 January 2017	2,016,519	2,049,378
RAK Capital Sukuk	21 October 2018	4,027,173	4,040,797
State of Qatar Sukuk	18 January 2023	1,522,408	1,525,862
		<u>7,566,100</u>	<u>16,725,351</u>

7 TRADING INCOME

	<i>2016 USD</i>	<i>2015 USD</i>
Realised gains	181,473	253,953
Movement in unrealised gain (loss) on trading investments	72,814	(140,840)
	<u>254,287</u>	<u>113,113</u>

Al Rajhi Commodities Mudaraba Fund – United States Dollar

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2016

8 TRANSACTIONS WITH RELATED PARTIES

The Fund pays to the Fund Manager a management fee calculated at an annual rate of 16% per annum of the Fund's special commission income. The fee is intended to compensate the Fund Manager for administration of the Fund. The management fees reflected in the statement of operations represent the fees charged by the Fund Manager during the period.

In addition, the Fund Manager has the right to collectively charge the Fund at any time with any charges relating to the Fund.

In the normal course of business, the Fund places Mudaraba investments with the Bank at prevailing market rates. Mudaraba investments involve typically the purchase of a commodity by the Fund for the purpose of its re-sale. The re-sale and the related mark up over cost is agreed with a counterparty at the inception of the Mudaraba transaction deals.

The Bank acts as the Fund's banker.

9 RISK MANAGEMENT

Special commission rate risk

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

The Fund is exposed to commission rate risk on money market placements and held to maturity investments which are commission bearing. However, as the Fund is itself an investor in the mutual funds, it is not able to reliably predict the impact of changes in special commission rate on its statement of operations. In addition, the Fund is exposed to special commission rate risk upon maturity of the money market placements.

Credit risk

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

The Fund is exposed to credit risk for its bank balances, money market placements, held to maturity investments and accrued special commission. The Fund Manager seeks to limit its credit risk by monitoring credit exposures. The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. Credit risks are generally managed on the basis of external credit grading of the counterparty.

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

	2016 USD	2015 USD
Bank balances	6,866,613	7,584,446
Money market placement	134,000,000	71,400,000
Held to maturity investments	7,566,100	16,725,351
Accrued special commission	604,672	424,906
Total exposure to credit risk	149,037,385	96,134,703

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's terms and conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting Unitholders' redemptions. The Fund's securities are considered to be readily realisable as they are investments in short term money market placements. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

9 RISK MANAGEMENT (continued)

Currency risk

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

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

10 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balances, trading investments, money market placement, held to maturity investments and accrued special commission.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

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

11 LAST VALUATION DAY

The last valuation day of the year was 31 December 2016 (2015: 31 December 2015).