

# **AL RAJHI BALANCED FUND 2**

**Financial Statements for the Year  
Ended December 31, 2010 and  
Report of Independent Auditors**

**REPORT OF INDEPENDENT AUDITORS**

March 26, 2011

To the Unit Holders of the Al Rajhi Balanced Fund 2:

**Audit scope**

We have audited the accompanying balance sheets of Al Rajhi Balanced Fund 2 (the "Fund") as of December 31, 2010, and the related statements of operations, cash flows and changes in net assets for the year then ended along with the notes which form an integral part of the financial statements. These financial statements, which were prepared by the Fund's management and presented to us with all information and explanations which we required, are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

**Unqualified opinion**

In our opinion, such financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as of December 31, 2010, and the results of its operations, changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Fund.

**PricewaterhouseCoopers**

By: 

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Mohammed A. Al Obaidi  
License Number 367

## AL RAJHI BALANCED FUND 2

### **BALANCE SHEETS AS OF DECEMBER 31**

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	<u>NOTES</u>	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>			
Cash at bank	4	US\$ 9,596	US\$ -
Investments	5	<u>13,945,507</u>	<u>12,228,786</u>
Total assets		<u>13,955,103</u>	<u>12,228,786</u>
<b><u>LIABILITIES</u></b>			
Accrued professional fees	4	<u>4,000</u>	<u>4,000</u>
Net assets value		<u>US\$ 13,951,103</u>	<u>US\$ 12,224,786</u>
Units in issue		<u>7,062,537</u>	<u>6,721,172</u>
Per unit value		<u>US\$ 1.975</u>	<u>US\$ 1.819</u>

Authorized signatories:

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Gaurav Shah  
Chief Executive Officer

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Luaiy Al Ruwaily  
Head of Operations

The notes on pages 6 to 10 form an integral part of these financial statements.

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**AL RAJHI BALANCED FUND 2**

**STATEMENTS OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31**

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	<u>NOTE</u>	<u>2010</u>	<u>2009</u>
<b>EXPENSES:</b>			
Professional fees	4	US\$ (6,667)	US\$ (6,667)
Board of directors remuneration	4	(941)	(1,870)
Other		<u>(1,333)</u>	<u>(1,332)</u>
Total expenses		<u>(8,941)</u>	<u>(9,869)</u>
<b>REALIZED GAINS (LOSSES) AND MOVEMENT IN UNREALIZED GAINS ON INVESTMENTS:</b>			
Realized gain (losses)		961,442	(1,313,056)
Movement in unrealized gains		<u>25,238</u>	<u>4,044,086</u>
Net realized gains (losses) and movement in unrealized gains		<u>986,680</u>	<u>2,731,030</u>
NET INCOME FROM OPERATIONS		<u>US\$ 977,739</u>	<u>US\$ 2,721,161</u>

Authorized signatories:

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Gaurav Shah  
Chief Executive Officer

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Luaiy Al Ruwaily  
Head of Operations

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**AL RAJHI BALANCED FUND 2****STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31**

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	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES:</b>		
Net income from operations	US\$ 977,739	US\$ 2,721,161
Adjustment for movement in unrealized gains on investments	(25,238)	(4,044,086)
Changes in operating assets and liabilities - Investments	<u>(1,691,483)</u>	<u>2,270,884</u>
Net cash (used in) provided by operating activities	<u>(738,982)</u>	<u>947,959</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from units sold	6,847,952	530,023
Payments on units redeemed	<u>(6,099,374)</u>	<u>(1,477,982)</u>
Net cash provided by (used in) financing activities	<u>748,578</u>	<u>(947,959)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	9,596	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>-</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>US\$ 9,596</u>	<u>US\$ -</u>

The notes on pages 6 to 10 form an integral part of these financial statements.

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**AL RAJHI BALANCED FUND 2**

**STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31**

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	<u>2010</u>	<u>2009</u>
<b>NET ASSETS AT BEGINNING OF THE YEAR</b>	US\$ 12,224,786	US\$ 10,451,584
Add: Proceeds from units sold during the year	6,847,952	530,023
Less: Payments on units redeemed during the year	(6,099,374)	(1,477,982)
Net income from operations	<u>977,739</u>	<u>2,721,161</u>
<b>NET ASSETS AT END OF THE YEAR</b>	<u>US\$ 13,951,103</u>	<u>US\$ 12,224,786</u>
<b>NET ASSETS PER UNIT AT END OF THE YEAR</b>	<u>US\$ 1.975</u>	<u>US\$ 1.819</u>

**UNIT TRANSACTIONS**

Transactions in units for the years ended December 31 are summarized as follows:

	<u>2010</u>	<u>2009</u>
<b>UNITS AT BEGINNING OF THE YEAR</b>	<u>6,721,172</u>	<u>7,339,924</u>
Add: Units sold	3,674,728	338,851
Less: Units redeemed	<u>(3,333,363)</u>	<u>(957,603)</u>
Net increase (decrease) in units	<u>341,365</u>	<u>(618,752)</u>
<b>UNITS AT END OF THE YEAR</b>	<u>7,062,537</u>	<u>6,721,172</u>

The notes on pages 6 to 10 form an integral part of these financial statements.

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## **AL RAJHI BALANCED FUND 2**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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#### **1. GENERAL**

Al Rajhi Balanced Fund 2 (the "Fund") is an open-ended investment fund established under an agreement between Al Rajhi Banking and Investment Corporation ("Al Rajhi Bank") and investors in the Fund ("Unit Holders"). The Fund is governed by the terms and conditions of its prospectus. The Fund is designed to combine between high and moderate risk investments for investors seeking to invest in mid-term and long-term investments in accordance with Islamic principles through investment in other Al Rajhi funds. The Fund's investments are to be allocated into the Commodities Mudarabah Funds - United States Dollar, Saudi Riyal or Euro (40% as a maximum) and the remaining balance is to be invested in other Al Rajhi equity funds. The Fund's net income is reinvested in the Fund, which affects the value and price per unit. The Fund is managed by Al Rajhi Capital (the "Manager").

The Fund was established on 1 Rabie Al Awal 1419H (corresponding to June 25, 1998).

The address of the Manager is as follows:

Al Rajhi Capital Company  
P.O. Box 5561  
Riyadh 11432  
Saudi Arabia

In dealing with the Unit Holders, the Manager considers the Fund as an independent unit. Accordingly, the Manager prepares separate financial statements for the Fund. The Fund's books and records are also administered by the Manager. Furthermore, the Unit Holders are considered owners of the assets of the Fund and any income distribution is made in relation to their respective ownership share to the total number of units.

The Manager is responsible for the overall management of the Fund's activities. The Manager can also enter into arrangements with other institutions for the provision of investment, custody or other administrative services on behalf of the Fund.

#### **2. REGULATING AUTHORITY**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### **a) Basis of preparation**

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement of investments at fair value, on the accrual basis of accounting and in conformity with generally accepted accounting principles in Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### **b) Use of estimates in the preparation of financial statements**

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

#### **c) Revenue recognition**

The Fund income is recognized on accrual basis.

#### **d) Investments**

Investments are revalued at mid-market value at the balance sheets date. Realized gains and losses on investments sold are determined on the weighted-average cost basis.

Investments in other funds are revalued based on the prices of the units as provided by these funds at the balance sheets date. Unrealized gains or losses are credited or charged to income.

#### **e) Trade date accounting**

All purchases and sales of investments are recognized on the trade date, which is the date the Fund commits to purchase or sell the asset.

#### **f) Foreign currency translation**

The Fund's books of account are maintained in United States dollar. Transactions denominated in foreign currencies, if any, are translated into United States dollar at rates of exchange prevailing on the dates of such transactions. Assets and liabilities denominated in foreign currencies are translated into United States dollar at rates prevailing on the balance sheets date.

**g) Liabilities**

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the provider or not.

**h) Provisions**

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

**i) Zakat and income tax**

Under the provisions of the Saudi income tax law, the income and gains of mutual funds are to be subjected to tax / zakat at the applicable rates. This law has not been implemented yet pending clarifications from the Department of Zakat and Income Tax and from the CMA.

**j) Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise cash in bank and other highly liquid investments with maturities of less than 90 days at acquisition.

**4. TRANSACTIONS WITH RELATED PARTIES**

The Manager charges the Fund with charges such as, auditing fees, board of directors remuneration and any legal charges paid on behalf of the Fund. All of the Fund's investments in mutual funds are managed by the Manager. Based on the agreement between the Fund and the Manager the Fund is not required to pay any fees for the management by the Manager. However, the Manager charges a subscription fee of up to 2% on all new subscriptions which is paid directly to the Manager by the subscribers.

All of the Fund's investments are managed by the Manager. The Fund also maintains its operating cash account with the Al Rajhi Bank.

Also, see (Note 5) for investments in the Fund by other funds managed by the Manager.

## 5. INVESTMENTS

The composition of the investments in Al Rajhi investment funds as of December 31, are summarized below:

<u>2010</u>	<u>Cost</u>	<u>Market value</u>	<u>Percentage of market value</u>
Commodities Mudaraba Fund - Saudi Riyal	US\$ 4,588,039	US\$ 4,611,587	33.07
Local Shares Fund	1,857,894	2,038,510	14.62
Petro Cement Fund	1,887,947	1,851,902	13.28
Al Rajhi Global Equity Fund	1,214,034	1,673,176	12.00
GCC Equity Fund - Saudi Riyal	1,241,816	1,347,263	9.66
India and China Equity Fund	931,355	1,277,870	9.16
Al Rajhi European Equity Fund	513,853	644,131	4.62
Global Small Capitalisation Equity Fund	<u>402,281</u>	<u>501,068</u>	<u>3.59</u>
Total	<u>US\$12,637,219</u>	<u>US\$13,945,507</u>	<u>100.00</u>
<u>2009</u>			
India and China Equity Fund	US\$ 2,156,589	US\$ 3,080,991	25.19
Commodities Mudaraba Fund - Saudi Riyal	2,695,376	2,820,626	23.07
Al Rajhi Global Equity Fund	1,571,546	2,077,112	16.99
Petro Cement Fund	2,087,707	1,582,940	12.94
Local Shares Fund	1,454,664	1,444,984	11.82
Al Rajhi European Equity Fund	<u>979,854</u>	<u>1,222,133</u>	<u>9.99</u>
Total	<u>US\$10,945,736</u>	<u>US\$12,228,786</u>	<u>100.00</u>

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management is carried out by senior management. The most important types of risk are summarized below:

**Credit risk** is the risk that the counter party will fail to discharge its financial obligation and cause the Fund to incur a financial loss. The Fund has no significant concentration of credit risk.

**Liquidity risk** is defined as the risk that the Fund will be unable to meet its net funding requirements for redemptions.

The Fund is exposed to bi-weekly cash redemptions of the units. It, therefore, invests all of its assets in other Al Rajhi investment funds which can be easily liquidated. The Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund holds assets denominated mainly in United States dollar, the functional currency, and in Saudi Riyal. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material. Furthermore, the exchange rate between Saudi Riyal and the United States dollar is fixed.

**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. As the Fund's financial instruments are compiled at fair value, the fair values of on-balance sheets financial instruments are not significantly different from the carrying values included in the financial statements.

#### **7. LAST VALUATION DAY**

The Fund's units are valued on a bi-weekly basis on every Monday and Wednesday (the valuation day). The value of the Fund's units is announced on the day following the valuation day (the announcement day).

The last valuation day of the year was December 29, 2010 (2009: December 30, 2009).

#### **8. MANAGEMENT'S APPROVAL**

These financial statements were approved by the Manager on March 26, 2011.

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