

**COMMODITIES MUDARABA
FUND - Euro**

**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 Commodities Mudaraba Fund - Euro:

Audit scope

We have audited the accompanying balance sheets of Commodities Mudaraba Fund - Euro (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: 

Mohammed A. Al Obaidi
License Number 367

COMMODITIES MUDARABA FUND - Euro

**BALANCE SHEETS
AS OF DECEMBER 31**

	<u>NOTES</u>	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>			
Cash and cash equivalents	4	€ 2,894,085	€ 1,242,292
Accrued Mudaraba commission income		<u>1,061</u>	<u>17</u>
Total assets		<u>2,895,146</u>	<u>1,242,309</u>
<u>LIABILITIES</u>			
Management fees payable	5	170	3
Accrued professional fees	5	<u>-</u>	<u>1,575</u>
Total liabilities		<u>170</u>	<u>1,578</u>
Net assets value		<u>€ 2,894,976</u>	<u>€ 1,240,731</u>
Units in issue		<u>24,940</u>	<u>10,800</u>
Per unit value		<u>€ 116.078</u>	<u>€ 114.883</u>

Authorized signatories:

Gaurav Shah
Chief Executive Officer

Luaiy Al Ruwaily
Head of Operations

The notes on pages 6 to 9 form an integral part of these financial statements.

COMMODITIES MUDARABA FUND - Euro

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

	<u>NOTE</u>	<u>2010</u>	<u>2009</u>
INVESTMENT REVENUE:			
Mudaraba commission income		€ 35,176	€ 28,631
Other income		<u>620</u>	<u>-</u>
Total income from operations		<u>35,796</u>	<u>28,631</u>
EXPENSES:			
Management fees	5	(5,628)	(2,528)
Professional fees	5	-	(3,462)
Advertising and other		<u>-</u>	<u>(996)</u>
Total expenses		<u>(5,628)</u>	<u>(6,986)</u>
NET INCOME FROM OPERATIONS		<u>€ 30,168</u>	<u>€ 21,645</u>

Authorized signatories:

Gaurav Shah
Chief Executive Officer

Luaiy Al Ruwaily
Head of Operations

The notes on pages 6 to 9 form an integral part of these financial statements.

COMMODITIES MUDARABA FUND - Euro

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31**

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES:		
Net income from operations	€ 30,168	€ 21,645
Changes in operating assets and liabilities:		
Accrued Mudaraba commission income	(1,044)	2,975
Management fee payable	167	(476)
Accrued professional fees	<u>(1,575)</u>	<u>(1,282)</u>
Net cash provided by operating activities	<u>27,716</u>	<u>22,862</u>
FINANCING ACTIVITIES:		
Proceeds from units sold	3,748,848	2,692,119
Payments on units redeemed	<u>(2,124,771)</u>	<u>(4,200,381)</u>
Net cash provided by (used in) financing activities	<u>1,624,077</u>	<u>(1,508,262)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,651,793	(1,485,400)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,242,292</u>	<u>2,727,692</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>€ 2,894,085</u>	<u>€ 1,242,292</u>

The notes on pages 6 to 9 form an integral part of these financial statements.

COMMODITIES MUDARABA FUND - Euro

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

	<u>2010</u>	<u>2009</u>
NET ASSETS AT BEGINNING OF THE YEAR	€ 1,240,731	€ 2,727,348
Add: Proceeds from units sold during the year	3,748,848	2,692,119
Less: Payments on units redeemed during the year	(2,124,771)	(4,200,381)
Net income from operations	<u>30,168</u>	<u>21,645</u>
NET ASSETS AT END OF THE YEAR	<u>€ 2,894,976</u>	<u>€ 1,240,731</u>
NET ASSETS PER UNIT AT END OF THE YEAR	<u>€ 116.078</u>	<u>€ 114.883</u>

UNIT TRANSACTIONS

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

	<u>2010</u>	<u>2009</u>
UNITS AT BEGINNING OF THE YEAR	<u>10,800</u>	<u>23,936</u>
Add: Units sold	32,531	23,486
Less: Units redeemed	<u>(18,391)</u>	<u>(36,622)</u>
Net increase (decrease) in units	<u>14,140</u>	<u>(13,136)</u>
UNITS AT END OF THE YEAR	<u><u>24,940</u></u>	<u><u>10,800</u></u>

The notes on pages 6 to 9 form an integral part of these financial statements.

COMMODITIES MUDARABA FUND - Euro

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

1. GENERAL

Commodities Mudarabah Fund - Euro (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's investment goal is capital accumulation and income to be provided through mudarabah trading in short to medium term commodities on international markets. 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 8 Rajab 1423H (corresponding to September 15, 2002). However, actual operations commenced from November 1, 2002.

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, 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) 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. (See Note 6 related to investments).

d) Revenue recognition

Mudaraba commission income is recognized on an effective yield basis.

e) Investments

Investment in Commodities Mudaraba contracts is held at amortized cost which are initially recognized at cost and subsequently measured at cost less any amounts written off, and provision for impairment, if any.

f) 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.

g) Foreign currency translation

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

h) Liabilities

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

i) 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.

j) 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.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in bank as of December 31, 2010 and Mudaraba investments with maturities of less than 90 days at acquisition. (See Note 6 related to investments).

Cash and cash equivalents as of December 31 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Cash at bank	€ 94,110	€ 92,411
Investments	<u>2,799,975</u>	<u>1,149,881</u>
Total	<u>€ 2,894,085</u>	<u>€ 1,242,292</u>

5. TRANSACTIONS WITH RELATED PARTIES

The Fund pays the Manager a management fee of 16% of the Mudaraba commission income after deducting all fees and charges.

In addition, the Manager charges the Fund with any accounting charges such as, audit fees or any legal fees incurred on of behalf the Fund. The Manager waived such charges in 2010.

The Fund also maintains its operating cash account with the Al Rajhi Bank.

A related party owned 806 units in Fund as of December 2010 (2009: Nil units).

6. INVESTMENTS

All investments of the Fund as of December 31, 2010 and 2009 are in trading in Euro commodities Mudaraba market.

The maturity of the investments contracts in commodities Mudaraba as of December 31, 2010 are summarized below:

	<u>Maturity date</u>	<u>Investment</u>
Mudaraba contract (1)	January 3, 2011	€ 599,976
Mudaraba contract (2)	January 10, 2011	700,000
Mudaraba contract (3)	January 18, 2011	700,000
Mudaraba contract (4)	January 14, 2011	<u>799,999</u>
		<u>€ 2,799,975</u>

7. 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 counterparty 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. Cash is placed with financial institutions with sound ratings.

Fair value and cash flow profit rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing profit rates on the Fund's financial positions and cash flows. The Fund is not significantly exposed to profit rate risk as the period of maturity of the Mudaraba contracts are generally for three months or less and were entered into at prevailing market rates.

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 daily cash redemptions of the units. It, therefore, invests all of its assets in short-term mudaraba investments. 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 Euro, the functional currency. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

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. Investments are stated at amortized cost (see Note 6), the fair values of on-balance sheets financial instruments are not significantly different from the carrying values included in the financial statements since the maturity of these financial instruments are generally for lesser than three months.

LAST VALUATION DAY

The Fund's units are valued on a daily basis from Saturday to 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.
