

**THE INVESTOR FOR SECURITIES
INVESTOR SAUDI RIYAL MURABAHA FUND
Financial Statements
For the year ended 31 December 2011
Together with the
INDEPENDENT AUDITORS' REPORT**



KPMG Al Fozan & Al Sadhan

KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 1 874 8500
Fax +966 1 874 8600
Internet www.kpmg.com.sa

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INDEPENDENT AUDITOR'S REPORT

To: **The Unit holders of
Al Hurr Saudi Equity Fund
Kingdom of Saudi Arabia**

We have audited the accompanying financial statements of **Al Hurr Saudi Equity Fund** (the "Fund") managed by The Investor for Securities (the "Fund Manager"), which comprise the balance sheet as at 31 December 2011 and the related statements of operations, changes in net assets attributable to unit holders and cash flows for the year then ended and the attached notes (1) through (14) which form an integral part of the financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia 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. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the preparation and fair presentation of the financial statements 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 Fund Manager's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Fund Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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 2011 and the results of its operations, changes in net assets attributable to unit holders and cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

For KPMG Al Fozan & Al Sadhan

Tareq A. Al Sadhan
License no. 352

Date: 27 Rabia II 1433H
Corresponding to: 20 March 2012



**THE INVESTOR FOR SECURITIES
INVESTOR SAUDI RIYAL MURABAHA FUND**

BALANCE SHEET
As at 31 December 2011
Amounts in Saudi Arabian Riyal

	<i>Note</i>	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>			
Cash at bank	6	2,039,969	19,100
Murabaha placements	7	84,863,901	55,627,793
Accrued Income on Murabaha placements		637,836	452,653
TOTAL ASSETS		<u>87,541,706</u>	<u>56,099,546</u>
<u>LIABILITIES</u>			
Fund management fee payable	10	46,568	52,162
Other liabilities		59,500	18,699
TOTAL LIABILITIES		<u>106,068</u>	<u>70,861</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>87,435,638</u>	<u>56,028,685</u>
Units in issue (<i>numbers</i>)	9	<u>8,184,518</u>	<u>5,339,715</u>
Net asset value – (SAR) per unit		<u>10.68</u>	<u>10.49</u>

The accompanying notes (1) through (14) form an integral part of these financial statements.

**THE INVESTOR FOR SECURITIES
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STATEMENT OF OPERATIONS
For the year ended 31 December 2011
Amounts in Saudi Arabian Riyal

	<i>Note</i>	2011	2010
<u>INCOME</u>			
Profit on Murabaha placements		1,630,633	2,171,618
		1,630,633	32,171,618
<u>EXPENSES</u>			
Management fee	8	(181,491)	(237,226)
Other expenses		(59,500)	(75,202)
		(240,991)	312,428
NET INCOME FOR THE YEAR		1,389,642	1,859,190

The accompanying notes (1) through (14) form an integral part of these financial statements.

**THE INVESTOR FOR SECURITIES
INVESTOR SAUDI RIYAL MURABAHA FUND**

STATEMENT OF CHANGES IN ASSETS ATTRIBUTABLE TO UNIT HOLDER

For the year ended 31 December 2011

Amounts in Saudi Arabian Riyal

	2011	2010
Net assets attributable to Unit holders at beginning of the year	56,028,685	57,001,089
Net income for the year	1,389,642	1,859,190
Changes from unit transactions		
Proceeds from issuance of units	52,642,029	7,998,264
Payments against redemption of units	(22,624,718)	(10,829,858)
Net changes from unit transactions	(30,017,311)	(2,831,594)
Net assets attributable to Unit holders at end of the year	87,435,638	56,028,685

The accompanying notes (1) through (14) form an integral part of these financial statements.

**THE INVESTOR FOR SECURITIES
INVESTOR SAUDI RIYAL MURABAHA FUND**

STATEMENT OF CASH FLOWS
For the year ended 31 December 2011
Amounts in Saudi Arabian Riyal

	<u>Note</u>	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		1,389,642	1,859,190
Changes in operating assets and liabilities			
Murabaha placements		(51,491,000)	9,783,848
Accrued profit on Murabaha placements		(185,183)	472,554
Fund management fee payable		(5,594)	(76,776)
Other liabilities		40,801	(19,712)
Net cash used in operating activities		(50,251,334)	12,019,104
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		52,642,029	7,998,264
Payments against redemption of units		(22,624,718)	(10,829,858)
Net cash generated from financing activities		30,017,311	(2,831,594)
Net (decrease) / increase in cash and cash equivalents		(20,234,023)	9,187,510
Cash and cash equivalents at beginning of the year		55,646,893	46,459,383
Cash and cash equivalents at end of the year	6	35,412,870	55,646,893

The accompanying notes (1) through (14) form an integral part of these financial statements.

**THE INVESTOR FOR SECURITIES
INVESTOR SAUDI RIYAL MURABAHA FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. THE FUND AND ITS ACTIVITIES

Investor Saudi Riyal Murabaha Fund (“the Fund”) is an open ended investment fund established and managed through an agreement between The Investor for Securities (the “Fund Manager”) and Fund Investors (“unit holders”). The objective of the Fund is to generate income and liquidity consistent with short term money market rates and to preserve the value of holder’s investment. The Fund provides investors with a Shariah compliant investment solution that generates competitive market returns from short term murabaha investments.

The Fund is managed by The Investor for Securities (the “Fund Manager”), which is also the custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price. In dealing with the unit holders, the Fund Manager considers the Fund as an independent unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

Capital Market Authority’s (“CMA”) approval for the establishment of the Fund was granted through its decision number 1909/5 dated 15 Rabi II 1430H (corresponding to 11 April 2009). The Fund commenced its operation on 2 May 2009.

2. REGULATORY AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by Capital Market Authority (“CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all funds within the Kingdom of Saudi Arabia.

3. SUBSCRIPTION/ REDEMPTION (DEALING DAY & VALUATION DAY)

The Fund is open for subscriptions / redemptions of units on each business day (a “Dealing Day”). The net assets value of the Fund is determined on each business day (a “Valuation Day”). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets *minus* fund liabilities) by the total number of outstanding fund units on the relevant valuation day.

4. BASIS OF PREPARATION

4.1 Statement of Compliance

These financial statements have been prepared in accordance with the generally accepted accounting standards in Kingdom of Saudi Arabia issued by the Saudi Organization of Certified Public Accountants (SOCPA).

4.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting and the going concern concept.

4.3 Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyal (SAR), which is the functional currency of the Fund. All financial information presented has been rounded to nearest SAR.

**THE INVESTOR FOR SECURITIES
INVESTOR SAUDI RIYAL MURABAHA FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. BASIS OF PREPARATION (Continued)

4.4 Use of estimates and judgments

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. These 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 future periods if required.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) *Murabaha placements*

Murabaha placements are held to maturity investments placed with various banks and are stated at amortized cost value determined on cost plus accrued profit basis. Investments transactions are accounted for as of the settlement date.

b) *Cash and cash equivalents*

For the purpose of reporting cash flows, cash and cash equivalents includes balances with banks and highly liquid investments with original maturity of 90 days or less.

c) *Revenue recognition*

Profit on murabaha placements is recognized on time-proportion basis over the period of the contract based on the principal amounts outstanding and agreed rate of profit.

d) *Fund management fee and other expenses*

Fund management fee and other fees are charged at agreed rates with the Fund Manager. These charges are calculated on each valuation date at an annual percentage of the Fund's net assets value. These expenses are charged to the statement of operations.

e) *Zakat / taxation*

Zakat/ taxation are the obligation of the unit holders and not provided for in the accompanying financial statements.

f) *Impairment of assets*

Financial assets are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which they are separately identifiable cash flows.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

Amounts in Saudi Riyal

6. CASH AND CASH EQUIVALENT

	2011	2010
Cash at bank	2,039,969	19,100
Murabaha placements-with original maturity of three months or less	33,372,901	55,627,793
Cash and cash equivalent	35,412,870	55,646,893

7. MURABAHA PLACEMENTS

The investment portfolio comprise of investments in the Murabaha contracts entered with GCC banks with commission from 0.90% to 2.85% (2010: 2.25% to 3.25%) and having remaining maturity up to 6 months(2010: 2 months).

8. FUND MANAGEMENT FEE AND OTHER EXPENSES

The Fund Manager charges from the Fund on every Valuation Day management fee at an annual rate of 12 % of the Fund's net profit while not exceeding 1% of the Fund's net assets value. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund as audit fee, regulatory and shariah audits, legal, brokerage, consultation services, data processing and other similar charges.

9. UNIT TRANSACTIONS

Transactions in units for the period are summarized as follows:

	2011	2010
Units at beginning of the year	5,340,715	5,615,949
Units issued	4,989,793	762,728
Units redeemed	(2,145,990)	(1,037,962)
Net change in units	2,843,803	(275,234)
Units at end of the year	8,184,518	5,340,715

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

Amounts in Saudi Riyal

10. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Fund comprise The Investor for Securities being the Fund Manager. Related party transactions for the year ended 31 December 2011 and balances arising there from are described as under:

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the period</u>		<u>Closing balance / (Payable)</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Investor for Securities	Fund management fee	181,491	237,226	(46,568)	(52,162)
	Amount of units issued	42,029	7,598,265		
	Amount of units redeemed	(7,409,268)	(10,428,188)		
The Investor Mutakamilah Industrial Area Fund	Amount of units issued	30,000,000	--	--	--
The Investor Fund for Shatti Villas	Amount of units issued	12,000,000	--	--	--
	Amount of units redeemed	(12,013,750)	--	--	--

11. RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Fund is exposed to credit risk for its bank balances and investment portfolio in terms of Murabaha contracts. The Fund Manager monitor credit exposures and assessing the creditworthiness of counter parties. The Murabaha contracts entered with banks having good credit ratings.

Profit rate risk

The financial assets of the Fund are not exposed to profit rate risk as the period of murabaha trading contracts entered into by the Fund is short term and contracts are made on fixed rates prevailing at the trade date.

**THE INVESTOR FOR SECURITIES
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

Amounts in Saudi Riyal

11. RISK MANAGEMENT(Continued)

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities. The Fund's terms and conditions provide for the subscription and redemptions of units on every business day and it is, therefore, exposed to the liquidity risk of meeting unit holder redemptions at any time.

The Fund Manager monitors the liquidity, requirements on a regular basis and ensures that sufficient funds are available to meet any commitment as they arise.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in foreign exchange rates. Fund has investments denominated in Qatari Riyal which is pegged with US Dollar, as the case for Saudi Riyal to US Dollar and thus currency risk is managed to minimal level.

Managing the risk of Net Assets attributable to Unit Holders

The objective of the Fund Manager when managing the net assets attributable to Unit Holders is to secure the Fund's ability to continue in order to provide Unit Holders with the highest returns and ensure that reasonable protection are given to the net assets attributable to Unit Holders.

The Fund Manager manages its investment portfolio and other assets through monitoring revenue generated from net assets and making required adjustments in accordance with market changes. Capital structure depends on subscribed and redeemed units.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Financial instruments comprise financial assets and financial liabilities.

The Fund's financial assets consist of bank balance and held to maturity investments; its financial liabilities consist of Fund management fee payable and other liabilities.

Investments are carried at amortized cost. The fair values of other financial instruments are not materially different from their carrying values.

13. LAST VALUATION DATE

The last net asset valuation day of the fund was at 31 December 2011(2010:31 December 2010).

14. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund Manager on 20 March 2012 corresponding to 27 Rabi II 1433H.