

# 2010

Annual Report



جدوى للإستثمار  
Jadwa Investment

سَمَاءُ  
الْحَمْدِ  
لِلَّهِ  
الْحَمْدُ



The Custodian of The Two Holy Mosques  
King Abdullah Bin Abdul Aziz Al-Saud



His Royal Highness Prince  
Sultan Bin Abdul Aziz Al-Saud  
Crown Prince, Deputy Prime Minister,  
Minister of Defense and Aviation and Inspector General



His Royal Highness Prince  
Nayef Bin Abdul Aziz Al-Saud  
Second Deputy Prime Minister and Minister of Interior

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Jadwa Investment  
A Saudi Closed Joint Stock Company,  
licensed by the Capital Market Authority,  
Capital SAR 568,490,000 Fully Paid  
Phone +966 1 279-1111 Fax +966 1 279-1571  
P.O. Box 60677, Riyadh 11555, Saudi Arabia

[www.jadwa.com](http://www.jadwa.com)

## Board of Directors



HRH Prince Faisal Bin Salman  
Bin Abdul Aziz Al-Saud  
Chairman of the Board of Directors



Tan Sri Dato' Azman Mokhtar  
Member



Adib Bin Abdullah Al-Zamil  
Member



Iqbal Ahmad Khan  
Member



Abdulrahman Bin Ibrahim  
Al-Ruwaita  
Member



Abdulaziz Bin Mohammed  
Al-Subeai  
Member



Michael Powell  
Member



Ahmed Bin Aqeel Al-Khateeb  
Managing Director & CEO

## Chairman's Statement

Dear shareholders,

I am pleased to present to you our report on the strong performance of Jadwa Investment during 2010. I am confident that further growth and success are in store for Jadwa in the years ahead.

The global economic recovery gained traction during 2010. Highly accommodative government policy and an improvement in the health of the global financial sector ensured a rebound from the worst recession in sixty years. Nonetheless, serious problems continue to affect performance in the leading global economies. Unemployment remains high, debt burdens large and, in many cases, austerity measures are being enacted. In contrast, the performance of emerging markets has been much stronger, reflecting the benefits of reform combined with sturdier budgetary positions, lower debt, healthier financial sectors and rising commodity prices.

All these factors apply to the Kingdom, which has cemented its place among the group of fast growing emerging economies. Economic growth strengthened in 2010 primarily because of the robust implementation of a well-conceived program of government spending. Greater bank lending, growing business and consumer confidence and the better global outlook all contributed to the expansion. Underlying these gains is a consistent long-term approach to economic reform and liberalization that has brought major improvements in the business climate.

The healthy economic environment was reflected in improved operating conditions for investment companies, though some challenges specific to the sector remained. The stock market lagged the recovery, with share prices recording only small gains in 2010 amid a further large decline in volumes. Advisory and arranging activities in the equity and debt markets were subdued and heightened competition led to further compression of fees in many investment banking activities.

In these circumstances, I am delighted to report that 2010 was an outstanding year for Jadwa Investment. We developed exciting new investment opportunities for our clients, won prestigious awards and achieved record profits. With interest rates exceptionally low and the stock market weak, we secured premier and unique investment offerings. For example, we recently completed the acquisition of a large minority stake in the United Matbouli Group, the sole distributor of Samsung products in Saudi Arabia, and acquired Kings Reach Tower, a landmark building in the heart of London.

It was an exceptional year for the mutual funds managed by asset management. The Jadwa Africa Equity Freestyle Fund was the best performing fund in Saudi Arabia in 2010 and the Saudi, GCC and Arab markets equity funds were the top performers in their respective classes. Jadwa also managed one of the most successful IPOs in 2010, that of Al Hassan Ghazi Ibrahim Shaker. In addition, we undertook significant projects in the energy, industrial, real estate and retail sectors.

Financial performance was exemplary in 2010. Net income hit a new high of SR110 million, a jump of 210 percent from 2009, with total revenues reaching SR237 million. The revenues were well balanced across the three major business lines of asset management, proprietary investment and investment banking. We were also able to lower our expenditure for the third successive year by maintaining our vigilance on costs. Since mid-2010 our annuity income has covered our total expenses, establishing a sustainable base for profitability. Shareholders' equity grew to SR1.27 billion, or SR22.3 per share, a 22 percent per year growth from the initial par value of SR10 per share. For the second year in a row, the Board of Directors recommended distribution of a dividend. At SR1 per share, it was double the 2009 dividend and equivalent to 10 percent of the par value per share.

I am confident that Jadwa will continue to grow during 2011. Strong government fiscal policy combined with a revival in the private sector should allow the Kingdom's economy to prosper. At the same time, we are well positioned

to benefit from the strong outlook for emerging markets through our valuable partnership with Khazanah Nasional Berhad. Internally, we have the systems and capacity in place to handle an increasing volume of business, the controls to keep our costs down and a highly capable staff. I take great pride in our record performance in 2010 and I look forward to 2011 bringing even greater rewards.

Thank you,

A handwritten signature in blue ink, consisting of a long horizontal line with a stylized flourish above it.

Faisal Bin Salman Bin Abdul Aziz Al-Saud  
Chairman of the Board of Directors

## Message from the CEO

Dear shareholders,

I am pleased to share the good news of 2010 with you. Our financial performance was very strong in difficult market conditions. Perhaps more importantly, we delivered on the promise of Jadwa in 2007, when we launched our business with high hopes and strong first year performance. After three tough years for the global and regional markets, and almost five years of extraordinary effort by our dedicated team, we have built a profitable and winning business model with a lean cost structure that should deliver sustainable profits.

For 2010 we earned profits of SR110 million on revenues of SR237 million. This was our best year ever in terms of profit, close to our 2007-high for revenues. Our cost-to-income ratio for 2010 was 53 percent, our lowest ever.

As a fellow shareholder, I would like to highlight one more statistic. Our profit-to-compensation expense ratio for 2010 was 1.3, meaning that for every riyal of compensation expense Jadwa delivered 1.3 riyals of profit. In comparison, the industry average for big global investment banks from 2006 to the third quarter of 2010 was 0.4, meaning for every dollar of compensation expense they delivered only 40 cents of profits. Our average since launch in 2007 is 0.93.

This performance occurred despite challenging market circumstances. There was little growth in the TASI in 2010 and investments in local equity funds shrank as investors moved money into Murabaha accounts. Brokerage volumes and margins continued to drop, hurting not only the new CMA-licensed firms but also the commercial bank investment affiliates that have been in operation for decades.

Conditions in the equity capital markets were mixed. While there were a few strong IPOs, including Jadwa's first, Al Hassan Ghazi Ibrahim Shaker, 2010 also saw the first instance of an IPO withdrawn after insufficient institutional investor interest during the book-building stage. Many other IPOs were only marginally covered, and likewise many private placements struggled to raise funds and were pulled from the market or restructured.

Our performance in 2010 shows that we have entered a new phase in our corporate life. We are no longer a startup; our monthly annuity income of SR6.7 million now exceeds our costs every month. This means we can start each new fiscal year with a profit. This speaks to the strength of our revenue engines.

Each component of our merchant banking business model is working effectively, and should get stronger over time. We have demonstrated robust sourcing capability and have several promising transactions in the pipeline for 2011, most of which are on an exclusive basis. Our investment committee has shown its ability to select high-quality deals and move decisively when presented with compelling opportunities, without taking on excessive risk. We can transact quickly and effectively in the Kingdom, combining international best practice with sensitivity and understanding of local market requirements.

The performance of our asset management team continues to be strong, with excellent growth in assets under management and market-leading fund performance. Our Moody's MQ2 rating, the only in the region, is a validation of this great capability we have built. We are also very pleased with our fundraising track record. At SR7.7 billion in assets under management, we are by far the largest CMA boutique and are larger than all but five of the commercial bank capital arms. In a year when the value of equity funds in the Kingdom shrank, we grew assets under management by SR1.7 billion.

We have been able to attract these new funds by bringing innovative products to our clients. In 2010, we were fortunate to identify and secure several attractive deals, including Kings Reach Tower in London and a direct investment in the United Matbouli Group, the main distributor of Samsung products in the Kingdom and a highly respected local company.

I am also pleased that we have maintained our long-term focus on building a leading financial institution in spite of the challenging times. In 2010, we invested significant Board and senior management time and energy in analyzing and refining our business strategy, resulting in a strong commitment to pursue merchant banking transactions to complement our main business lines. We also continued to invest in our people, sending senior team members as well as the next generation of leadership to short courses at leading educational institutions, including the business schools of Harvard, Columbia, Wharton, Insead and LBS.

Our focus in 2011 is to continue to institutionalize the business, while strengthening our revenue engines in asset management, investment banking, brokerage and proprietary investment.

Thank you,

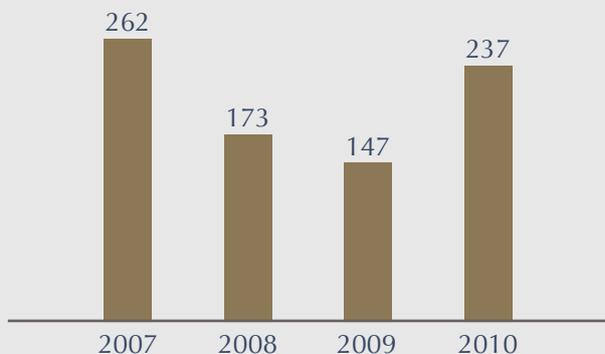
A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Ahmed Bin Aqeel Al-Khateeb  
Managing Director & CEO

## Performance Overview

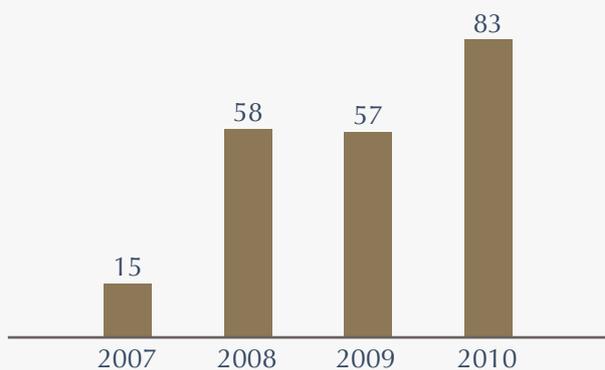
REVENUE  
SR million

Strong revenue generation, returning to pre-crisis levels



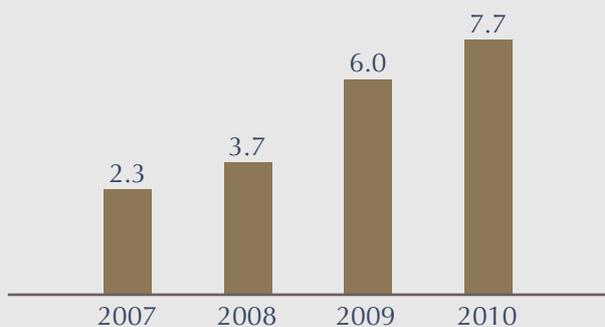
ANNUITY REVENUE  
SR million

Substantial growth in quality of revenue



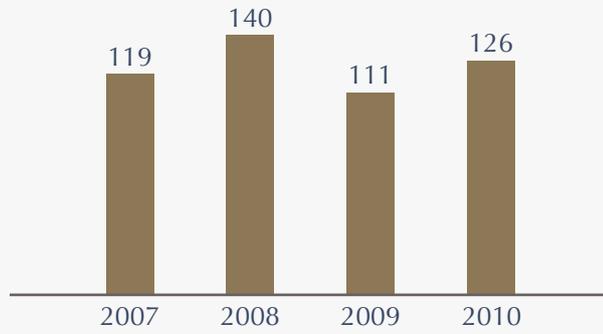
ASSETS UNDER MANAGEMENT  
SR billion

Jadwa is now the 6th largest asset manager in KSA



EXPENSES  
SR million

Cost to income ratio decreased from 81%  
in 2008 to 53% in 2010



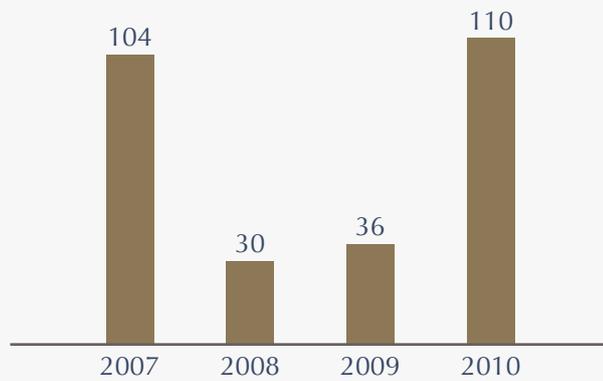
DIVIDENDS  
SR million

Strong commitment to rewarding  
shareholders



NET INCOME  
SR million

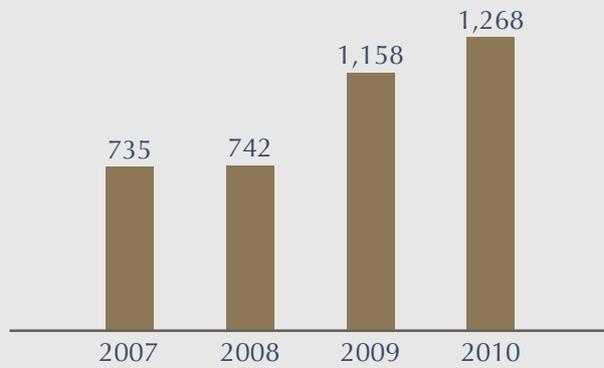
Record profitability in 2010 and four  
consecutive years of profits



## SHAREHOLDERS' EQUITY

SR million

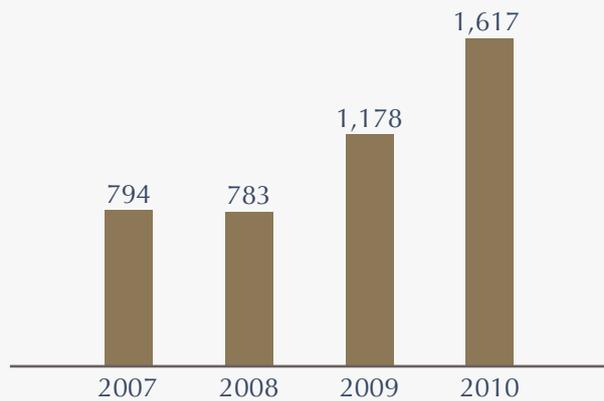
Shareholders' equity growth CAGR of 15.9% since 2007, including dividends



## ASSETS

SR million

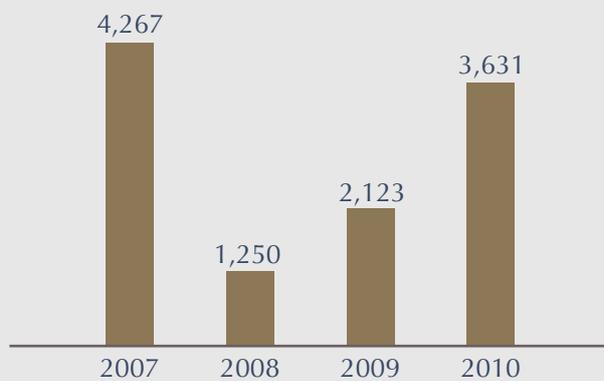
Asset growth CAGR of 19.5% since 2007

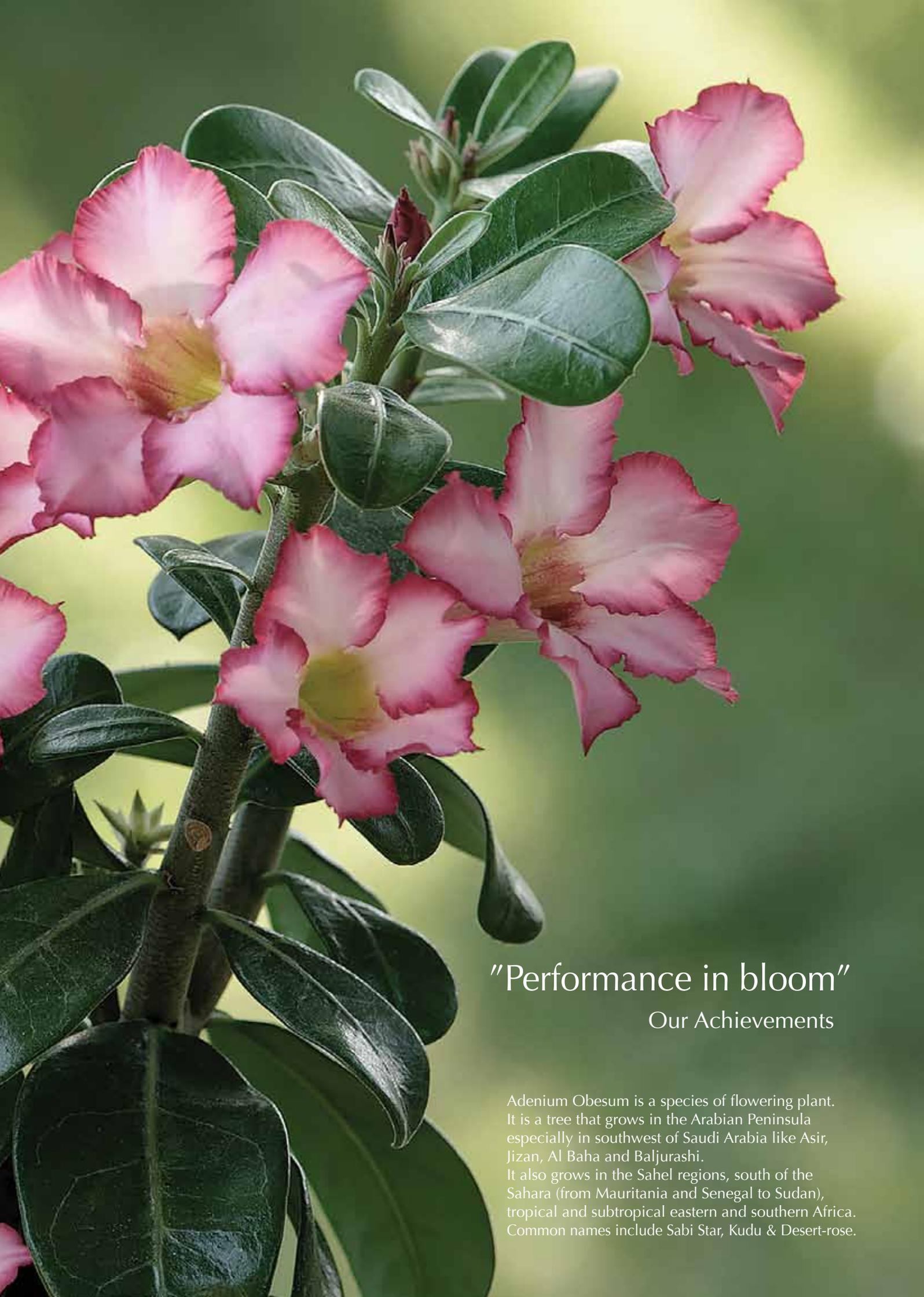


## DEAL VOLUME

SR million

Continued strong performance despite challenging market circumstances





## “Performance in bloom”

### Our Achievements

Adenium Obesum is a species of flowering plant. It is a tree that grows in the Arabian Peninsula especially in southwest of Saudi Arabia like Asir, Jizan, Al Baha and Baljurashi.

It also grows in the Sahel regions, south of the Sahara (from Mauritania and Senegal to Sudan), tropical and subtropical eastern and southern Africa. Common names include Sabi Star, Kudu & Desert-rose.



## More than just Awards

A reflection of our commitment to our clients and partners who made these accomplishments possible and inspire us to aim higher.



"Collective efforts yield results"

Company Overview

Adenium is an evergreen succulent shrub. It can grow to 1-3m height, with pachycaul stems and a stout, swollen basal caudex. It is also known that Adenium stores water inside during rain seasons so it uses it in the dry ones.

## Company Overview

### Asset management

In 2010 asset management maintained its strong performance. We grew our assets under management to SR7.7 billion, an increase of 28 percent, and our revenues by 58 percent, to SR95.9 million. This growth was the result of a combination of the market-leading performance of existing products and the launch of attractive new products.

Our growing reputation as an Alpha provider continues. Most of the funds under our management maintained their impressive record of outperforming their benchmarks during 2010. The Jadwa Africa Equity Freestyle Fund was the best performing fund in Saudi Arabia for the year, while our Saudi, GCC and Arab markets equity funds were the top performers in their respective categories. With each of these funds achieving its three-year track record during the year, they have been the subject of much interest from regional and international institutional investors.

Our outstanding performance and service resulted in three awards in 2010: World Finance International "Best Asset Manager in the GCC", EMEA Finance "Best Asset Manager in Saudi Arabia" and Global Investor "Best Asset Manager in Saudi Arabia". We have been shortlisted for several other awards that will be announced during the first quarter of 2011.

In 2010, we took an important step towards transparency and international best practice by becoming the first asset management division in the Middle East to secure a manager quality rating from Moody's Investors Service. We were awarded a Manager Quality rating of MQ-2, the second highest on the scale used by Moody's to rate investment managers globally.

In addition to the continued marketing of our existing product suite, during 2010 we structured and launched two new products designed for our sophisticated high-net worth clients. First, we originated a unique opportunity for our investors to participate in the acquisition of King's Reach Tower, a landmark building in the heart of London's vibrant South Bank. Our second offering was a private equity fund, Jadwa Technology Special

Opportunity Fund, providing investors beneficial ownership in United Matbouli Group. We raised in excess of SR500 million in fresh funds for these products.

The placing of the wealth management team under asset management in the fourth quarter enhanced our ability to raise money and close deals. This process will be furthered by the recent implementation of a client relationship management system.

In 2011 we will retain our focus on our core areas of regional public and private equities. We are optimistic for the year ahead and look forward to building on our strong position in the regional asset management industry. We aim to grow our assets under management through strong, consistent performance and by offering attractive and unique products.

### Investment banking

Investment banking cemented its position as one of the leading providers of corporate finance advisory, equity capital markets and private equity services in Saudi Arabia in 2010. We executed a number of landmark transactions totaling in excess of SR3.5 billion with strong rankings in all league tables. This status is the culmination of several years of performing sophisticated transactions by a team that has earned a reputation for high-quality service. This was reinforced by the prestigious "Deal of the Year" honor at the Private Equity World MENA Awards, for the acquisition of a stake in Gulf Union Food Company.

Among our key achievements in 2010 was the successful IPO of Shaker Group. This transaction was the first in which an investment bank not affiliated with a commercial bank carried out all five roles in an offering. We executed the acquisition of a significant equity stake in United Matbouli Group, a leading consumer electronics distribution business. In addition, we advised listed and private companies in the retail, industrial and real estate sectors. As a result, our revenues were diversified across multiple transactions evenly spread amongst various business lines.

In 2010, we took an important step towards transparency and international best practice by becoming the first asset management division in the Middle East to secure a manager quality rating of MQ-2 from Moody's Investors Service.

The ability to source attractive opportunities and to rapidly execute complex transactions has provided Jadwa with a dependable and efficient merchant banking platform. We provide sound advice and funding to strong and high-growth companies, creating attractive propositions for our clients invest alongside us.

We expect capital market, M&A and private equity activity to gain momentum in 2011 and beyond as businesses redefine their strategies and market valuations move closer to those desired by issuers. We are well positioned to capitalize on this expected trend given our relationships, capital base, advisory capability and deep understanding of the local market. The pipeline of business for 2011 is strong and diversified, consisting of several IPOs, M&A, private equity and advisory mandates.

#### Proprietary investment

Proprietary investment had a record year in 2010. Revenues exceeded SR110 million, up by 126 percent on the previous year. This performance was driven by well-diversified revenue streams: underwriting fees, dividends on both private equity and public equity investments, and capital gains from merchant banking transactions and from substantial outperformance of benchmarks by our stock market portfolios. Our focus in 2010 was to pursue value in public and private investments to benefit from an anticipated improvement in financial markets stemming from a recovering global economy. Major milestones during the year included:

- Closing a private equity investment to acquire a 49 percent stake in United Matbouli Group, the sole distributor for Samsung in Saudi Arabia. The company has a strong track record and recent double-digit growth in revenues and profitability. This company was offered to select Jadwa clients with proprietary investment retaining a significant share.
- Strengthening investments in the Saudi stock market to take advantage of low priced and fundamentally sound companies. The return on our stock market investments in 2010 was 19 percent, a significant outperformance of the TASI and our benchmark. We expect further benefits from stock market investment in 2011 and beyond.

- Participation in a unique investment opportunity in an attractively-valued mixed-use tower in London. Taking advantage of the depressed UK real estate market, proprietary investment along with Jadwa clients invested in the strategically-located Kings Reach Tower in London where high rental and value growth is forecast. A redevelopment plan is ongoing, which we expect to add significant value.

Our investments in mutual funds had an outstanding year, rising by more than 15 percent during 2010, lifting their value to pre-global financial crisis levels. Proprietary investment remains actively involved in existing private equity investments. Our investment in Luberef showed continued growth as the market for Luberef products saw a strong improvement which was reflected in the company's financial performance. We also continued to benefit greatly from our ongoing joint-venture partnership with Saudi Aramco in Luberef. Our investment in Gulf Union Foods Company passed major landmarks in the process of conversion into a joint stock company in preparation for an IPO.

#### Brokerage

Brokerage had another solid year in 2010 in a difficult environment. Our online trading platform that allows clients to place their own conditional orders, and we provide full access to GCC and other key Middle Eastern stock markets, in addition to sukuk and commodities trading. Important expense savings during the year helped us deliver profits despite the fall in stock market volumes in the Kingdom; volumes in 2010 were only 30 percent of the level when we were launched in 2007.

#### Research

The research department thrived in 2010. We launched a well-received new product, the Saudi Chart Book, which further enhanced our reputation as the leading provider of timely, clear and accurate analysis of the Saudi economy and financial markets. A streamlining of staff allowed a notable increase in productivity, with almost 40 reports produced during the year, and a substantial growth in revenues earned from executing research mandates for private clients.

We built on our strong the track record for forecast accuracy. Our projection at the start of the year for



Continued growth  
SR 7.7 billion

economic growth was spot on and that for oil prices was very close. Like many analysts we were overly optimistic about the stock market, but our sectoral picks outperformed the market.

Our reports continued to attract widespread media coverage and key department members are respected commentators, regularly appearing on television and in newswires and the print media. The Chief Economist and Head of Research are also in demand as speakers and between them presented at almost 50 external events during the year. All these activities made a valuable contribution to supporting Jadwa's brand. In addition, the department provided a wide variety of support to other units within Jadwa.

#### Operating office

The office of the Chief Operating Officer coordinated significant efficiency savings throughout the company. Through automation, process mapping and standardization of various key business activities we have achieved greater output despite a reduction in staff. Optimizing IT infrastructure, developing various efficiency-enhancing applications in-house and favorably renegotiating various contracts were the main drivers of improved operational performance in 2010. The functioning of the IT, human resources, administration and investment operations departments all benefitted from the enhanced utilization of the available technology and resources.

#### Investment operations

During 2010 investment operations continued to provide smooth and uninterrupted support to the asset management and brokerage departments. Our overall activity grew by 42 percent from 2009, although our headcount was unchanged. We handled all back office and administrative activities related to 19 funds, 29 DPMs and 37 weekly valuations. We were active in five IPOs, including acting as the receiving agent for the Shaker IPO, and helped with the successful conclusion of various due diligence meetings with outside parties.

#### Human resources

In 2010 human resources further improved the support its offers to all business lines. The services we provide were assessed and where possible automated, resulting in much improved response times. We also reviewed and revised key policies and procedures to ensure their

alignment with best practices and fine-tuned the Employee Share Plan Program to reinforce the competitiveness of Jadwa in the labor market. We maintained our strong commitment to building the capabilities of all staff and during 2010 Jadwa employees attended courses at Harvard Business School, Columbia Business School, Wharton and London Business School. In addition, we implemented a policy to reimburse staff that pursue further qualifications.

#### Information technology

Throughout the year we maintained our focus on information technology as a business enabler. The IT department was central to the automation of key business processes that generated efficiency savings across the company. In many cases these solutions were fully designed and implemented internally. In addition, we completed other important projects such as the client relationship management database and management dashboard system.

#### Administration

During 2010 all requests for administration were automated, enabling us to hit our goal of becoming a paperless department. The new electronic services allow for faster processing and easier tracking of the status of all tasks and enquires. All our policies and procedures were reviewed and revised to make them consistent with the new service offering.

#### Corporate communications

During 2010 corporate communications continued to pursue activities to support our strong brand, while backing fully the communication needs of all Jadwa departments. Jadwa was present in the media at least once each month during the year and we undertook other activities to increase awareness among the company's target audience. We also identified select industry awards and coordinated Jadwa's successful submissions.

#### Shariah

The Shariah group examines all of Jadwa's activities and determines their compliance with Shariah board resolutions. The department reviewed a number of contracts, agreements, products and funds and played an important role in restructuring some products to meet Shariah guidelines. We also issued a control report that details compliance throughout Jadwa.

Our efforts paid dividends, with Jadwa winning 3 awards from MENA Fund Manager Performance Awards.



GCC EQUITY FUND  
OF THE YEAR

HIGHLY COMMENDED  
SAUDI EQUITY FUND  
OF THE YEAR

HIGHLY COMMENDED  
SAUDI ASSET MANAGER  
OF THE YEAR

### Legal

The legal department proactively provides professional legal advisory to executive management, business units and other departments. We determine the legal strength of transactions and offer alternative solutions to actual and potential legal risk. Legal helped the execution of all Jadwa's deals during 2010 in addition to finalizing the Employee Share Plan Program.

### Compliance & AML

Over 2010 the compliance and anti-money laundering unit coordinated adherence to the company's code of conduct and policies and all relevant rules and regulations. Monthly compliance reports were shared with all concerned departments to rectify issues. We took important steps to heighten staff awareness by initiating training courses on financial crime, including anti-money laundering, counter-terrorism funding and fraud, and developing a Compliance Awareness and Training Program that provides various educational tools, training and certification programs.

### Corporate secretary office

The office of the corporate secretary ensures high standards of corporate governance and observance of policies and procedures to protect shareholders' interests and promote accountability and transparency. We organized four Board of Directors meetings,

the Annual General Assembly and an Extraordinary Assembly in addition to following-up on Board action items and drafting Board resolutions. Under our supervision, the terms of reference and charters of management committees were reviewed. Operational and departmental policies and procedures were also reviewed to ensure systems and controls remain sound.

### Risk management

Risk management is responsible for analyzing and controlling risk and optimizing the risk/reward profile of Jadwa. We were actively involved in assisting asset management, investment banking and proprietary investment in identifying risks and implementing mitigation plans for all their new products. As a result Jadwa was able to launch a number of profitable projects that did not fundamentally alter our risk profile.

### Finance

Finance department had another good year in 2010. We were instrumental in securing all financing needs for Jadwa and contributed to the merchant banking transactions executed during the year. Annual financial closing was completed in record time and on par with publicly traded companies for the fourth consecutive year. The accounting and budgeting units achieved all of their key performance indicators in 2010 and ensured the timely delivery of high-quality and reliable financial reports.



3 awards



## “Promising growth”

### Shariah Supervisory Board Annual Statement

Adenium’s leaves are spirally arranged, clustered toward the tips of the shoots, simple entire, leathery in texture, 5-15 cm long and 1-8 cm broad. The flowers are tubular, 2-5 cm long, with the outer portion with five petals. The flowers tend to red and pink, often with a whitish blush outward of the throat.

## Shariah board members are:

### Sheikh Dr. Abdullah Al Mutlaq (Chairman of the Committee)

Member of the Senior Ulema Board, former Chairman of the comparative Fiqh, Imam Mohammed Bin Saud Islamic University, a member of Shariah Board in a number of financial institutions in the Kingdom of Saudi Arabia.

### Sheikh Dr. Mohammad Elgari (Member of the Committee)

Professor of Islamic Economics at King Abdulaziz University in Jeddah, expert of the Fiqh Academy of the Organization of Islamic Conference in Jeddah.

### Sheikh Bader Al-Omar (Member of the Committee)

He is the head of Shariah group at Jadwa Investment, and is a Shariah board member for other Islamic financial institutions.

# Shariah Supervisory Board Annual Statement for the Year 2010

This annual statement reflects the compliance of Jadwa Investment with the Shariah guidelines, as well as the cooperation and commitment of all departments in applying Shariah resolutions.

الهيئة الشرعية  
Shariah Supervisory Board

جدوى للإستثمار  
Jadwa Investment

In the name of Allah the Most Gracious the Most Merciful

## SHARIAH SUPERVISORY BOARD

(Annual Shariah Statement for the Year 2010)

All praise is due to Allah, peace and blessings are due to Prophet Muhammad, his household and companions.

To Jadwa Investment Shareholders:

Assalamualaikum warahmatullahi wabarakatuh

After we have reviewed the Shariah internal audit reports for the year 2010, which states the company's commitment to Shariah resolutions, and after we have looked at the annual financial statements, the Shariah board is of the opinion that:

1. All contracts and agreements that Jadwa have entered into during the year 2010, and brought to our attention, were Shariah compliant.
2. Profits and losses charged to the investment account are consistent with the rules that the Shariah board had approved, and therefore are Shariah compliant.
3. Income received from prohibited sources was disposed of through distribution to charitable purposes.

The Shariah board expresses its gratitude to Jadwa management and staff for their commitment to applying Shariah guidelines and resolutions. We pray to Allah Almighty to grant them success.

Peace and blessings are due to prophet Muhammad, his household and companions.



Dr. Abdullah Al Mutlaq

Chairman

### Board Members



Dr. Mohammad Elgari

Member



Bader Abdulaziz Alomar

Member



## "Fruits of our labors"

### Financial Statements and Independent Auditor's Report

Adenium is a popular houseplant in temperate regions. It requires a sunny location and a minimum indoor temperature in winter of 10 °C. Adenium is typically propagated by seed or stem cuttings. The numerous hybrids are propagated mainly by grafting onto seedling rootstock. Adenium is a species of plant commonly used for bonsai and cultivated for its leaves, growth form and flowering characteristics.

**INDEPENDENT AUDITORS' REPORT**

To the shareholders  
Jadwa Investment  
Riyadh, Saudi Arabia

**Scope of Audit**

We have audited the accompanying balance sheet of Jadwa Investment - Saudi closed joint stock company (the "Company") as at December 31, 2010, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 26 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. 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. 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 standards used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

**Unqualified Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Bakr A. Abulkhair  
License No. 101  
Safar 21, 1432 H  
January 25, 2011



Audit, Tax, Consulting, Financial Advisory.

Member of  
Deloitte Touche Tohmatsu

## Balance Sheet as at December 31<sup>st</sup>, 2010

	Notes	2010 SR	2009 SR
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	3	95,530,521	7,580,298
Accounts receivable		50,228,710	58,854,111
Held for trading investments	4	291,341,084	187,722,882
Prepaid expenses and other assets	6	7,129,987	5,320,375
Total current assets		444,230,302	259,477,666
Non-current assets			
Available for sale investments	5	987,449,899	726,779,395
Property and equipment, net	7	6,205,677	16,478,022
Investment in an associate	9	179,564,621	175,675,947
Total non-current assets		1,173,220,197	918,933,364
<b>TOTAL ASSETS</b>		<b>1,617,450,499</b>	<b>1,178,411,030</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Short-term loan	11	299,994,267	-
Accrued expenses and other liabilities	13	38,750,613	14,429,507
Zakat and income tax provision	10	3,934,828	1,435,384
Total current liabilities		342,679,708	15,864,891
Non-current liabilities			
End-of-service indemnities		5,840,552	4,467,773
Shareholders' equity			
Share capital	1, 12	568,490,000	568,490,000
Statutory reserve	12, 14	290,967,929	290,967,929
Change in fair value of available for sale of investments	5, 9	179,803,890	146,984,459
Retained earnings		229,668,420	151,635,978
Total shareholders' equity		1,268,930,239	1,158,078,366
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,617,450,499</b>	<b>1,178,411,030</b>

## Statement of Income for the year ended December 31<sup>st</sup>, 2010

	Notes	2010 SR	2009 SR
<b>Revenues</b>			
Asset management		95,888,851	60,735,631
Corporate finance		25,299,431	28,412,300
Brokerage		4,310,924	5,789,907
Proprietary investment	15	110,174,424	48,712,866
Other revenues		942,500	924,844
<b>Total revenues</b>		<b>236,616,130</b>	<b>144,575,548</b>
<b>Expenses</b>			
Salaries and other benefits		(87,519,774)	(74,409,924)
Depreciation	7	(10,314,541)	(9,942,562)
Rent expenses		(3,502,837)	(3,576,570)
Commission on short-term loan		(784,984)	-
Other general and administrative expenses	16	(24,255,271)	(20,132,148)
<b>Total expenses</b>		<b>(126,377,407)</b>	<b>(108,061,204)</b>
Income from operations		110,238,723	36,514,344
Other income	17	-	2,428,363
Restructuring costs	18	-	(2,960,253)
Income before zakat		110,238,723	35,982,454
Zakat	10	-	(376,698)
<b>NET INCOME</b>		<b>110,238,723</b>	<b>35,605,756</b>
Earnings per share:	19		
Income from operations		1.94	0.64
Net income		1.94	0.63

## Statement of Cash Flows for the year ended December 31<sup>st</sup>, 2010

	2010 SR	2009 SR
<b>OPERATING ACTIVITIES</b>		
Income before zakat	110,238,723	35,982,454
Adjustments for:		
Share in net income of an associate	(3,888,674)	(6,241,370)
Depreciation	10,314,541	9,942,562
End-of-service indemnities	1,737,567	1,465,464
Provision for doubtful debts	2,137,500	-
Realized (gains) losses on sale of available for sale investments	(47,726,279)	951,399
Unrealized (gains) losses on held for trading investments	(19,170,995)	2,204,080
Realized gains on sale of held for trading investments	(4,944,072)	(14,393,924)
Gain on partial disposal of investment in an associate	-	(20,459,999)
Gain from sale of property and equipment	-	(2,428,363)
Changes in operating assets and liabilities:		
Accounts receivable	6,487,901	(31,290,877)
Prepaid expenses and other assets	(1,809,612)	2,278,333
Accrued expenses and other liabilities	24,321,106	(9,544,696)
Due to related parties	-	(7,581,600)
End-of-service indemnities paid	(364,788)	(138,665)
Zakat and income tax paid	(1,282,337)	(6,372,227)
Net cash from (used in) operating activities	76,050,581	(45,627,429)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(42,196)	(1,801,373)
Proceeds from sale of property and equipment	-	3,869,307
Additions to available for sale investments	(548,124,067)	(429,160,028)
Proceeds from sale of available for sale investments	367,999,273	29,874,981
Addition to held for trading investments	(79,503,135)	(175,533,038)
Proceeds from partial sale of investment in an associate	-	22,296,370
Net cash used in investing activities	(259,670,125)	(550,453,781)
<b>FINANCING ACTIVITIES</b>		
Short-term loan	299,994,267	-
Dividends paid	(28,424,500)	-
Issue of new share capital	-	68,490,000
Share premium	-	273,960,000
Net cash from financing activities	271,569,767	342,450,000
Net change in cash and cash equivalents	87,950,223	(253,631,210)
Cash and cash equivalents, beginning of the year	7,580,298	261,211,508
Cash and cash equivalents, end of year	95,530,521	7,580,298
Non-cash items:		
Change in fair value of investments	32,819,431	39,035,605

## Statement of changes in Shareholders' Equity for the year ended December 31<sup>st</sup>, 2010

	Share capital SR	Statutory reserve SR	Change in fair value of available for sale investments SR	Retained earnings SR	Total SR
January 1 <sup>st</sup> , 2009	500,000,000	13,447,353	107,948,854	121,026,182	742,422,389
Issue of new share capital	68,490,000	273,960,000	-	-	342,450,000
Change in fair value of available for sale investments	-	-	54,766,828	-	54,766,828
Change in fair value of investment in associate	-	-	(15,731,223)	-	(15,731,223)
Net income	-	-	-	35,605,756	35,605,756
Transfer to statutory reserve	-	3,560,576	-	(3,560,576)	-
Zakat and income tax provision (Note 10)	-	-	-	(1,435,384)	(1,435,384)
December 31 <sup>st</sup> , 2009	568,490,000	290,967,929	146,984,459	151,635,978	1,158,078,366
Change in fair value of available for sale investments	-	-	32,819,431	-	32,819,431
Net income	-	-	-	110,238,723	110,238,723
Dividends paid	-	-	-	(28,424,500)	(28,424,500)
Zakat and income tax provision (Note 10)	-	-	-	(3,781,781)	(3,781,781)
December 31 <sup>st</sup> , 2010	568,490,000	290,967,929	179,803,890	229,668,420	1,268,930,239

# Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2010

## 1. GENERAL

Jadwa Investment (the "Company") is a Saudi closed joint stock company established pursuant to Royal Decree Number M/30 and registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010228782 on 1 Safar 1428 H (corresponding to February 19<sup>th</sup>, 2007).

The share capital of the Company, amounting to SR568,490,000, is divided into 56,849,000 shares of SR10 each.

The principal activities of the Company are trading as principal and agent, underwriting, establishment and management of mutual funds and portfolio management, arranging, providing advisory and safekeeping services for administrative arrangements and procedures relating to investment funds, portfolio management and trading as per license of the Capital Market Authority ("CMA") number 37-6034, dated 3 Sha'baan 1427H (corresponding to August 27<sup>th</sup>, 2006).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

The Company follows a fiscal year ended December 31<sup>st</sup>.

### Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments and held for trading investments, and the measurement of investment in an associate using equity method.

### Cash and cash equivalents

Cash and cash equivalents include bank current accounts and liquid investments with original maturities of three months or less from the acquisition date.

### Available for sale investments

Available for sale investments are stated at fair value, and the changes in fair value are included in shareholders' equity. Where the fair value is not readily determinable, such financial instruments are stated at cost less allowance for impairment in value.

### Held for trading investments

Held for trading investments is stated at fair value. The unrealized and realized gains and losses from sale of held for trading investments are recorded in the statement of income.

### Use of estimates

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

### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. For assets carried at cost, impairment is determined as the difference between cost and the present value of future cash flows discounted at the current market rate of return for similar financial assets.

### Investment in an associate

Associates are those entities in which the Company holds more than 20% but less than 50% in the share capital or otherwise can significantly influence the financial and operating policies of the investee company. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or recoverable amount.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated useful lives of the principal classes of assets are as follows:

	Years
Computer hardware	4
Computer software	4
Furniture and fixtures	4
Office equipment	4
Motor vehicles	4
Leasehold improvements	7

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2010 (continued)

### Impairment of long lived assets

Assets are reviewed 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

### Provisions for obligations

A provision is made when the Company has a legal or constructive obligation 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.

### Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

### End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

### 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 the financial statements.

### Revenue recognition

Revenue is recognized upon delivery of services to customers and is stated net of discounts.

Fees charged for managing assets (including mutual funds) are recognized as revenue as the services are provided. Subscription fees are recognized upon subscription of the investor to the Fund. Fund performance income is recognized at the year end, if the fund results meet the annual preset target.

Advisory service fees are accrued on a time proportionate basis, as the services are rendered.

Dividends from investments are recognized when earned or publicly declared by the investee.

Commission income is recognized on an accrual basis.

### Zakat and income tax

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is charged to the Saudi shareholders' equity account while income tax is charged to the foreign shareholders' equity account. Zakat and income tax are provided for on an accrual basis. The zakat charge is computed on the Zakat base. Income tax is computed on the adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank current accounts and Murabaha contracts with original maturities less than three months from the acquisition date:

	2010 SR	2009 SR
Bank current accounts	530,521	1,580,298
Murabaha contracts	95,000,000	6,000,000
	<u>95,530,521</u>	<u>7,580,298</u>

Bank current accounts and Murabaha contracts are placed with counterparties who have good credit ratings.

Murabaha contracts are made for varying periods between one day and three months depending on the cash requirements of the Company. All deposits result in an average commission rate of 0.21% per annum (December 31<sup>st</sup>, 2009: 0.70% per annum).

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### 4. HELD FOR TRADING INVESTMENTS

The held for trading investments as at December 31<sup>st</sup>, consist of the following:

	2010 SR	2009 SR
Discretionary Portfolio Management Fund	218,021,764	187,722,882
Trading Shares Portfolio	73,319,320	-
	<u>291,341,084</u>	<u>187,722,882</u>

### 5. AVAILABLE FOR SALE INVESTMENTS

The cost and fair value of available for sale investments as at December 31<sup>st</sup>, are as follows:

	Initial cost SR	Change in fair value SR	Fair value 2010 SR	Fair value 2009 SR
Open-ended funds	426,415,838	(570,110)	425,845,728	278,508,033
Closed-ended funds	304,056,561	19,159,939	323,216,500	306,209,500
Equity shares	234,485,839	3,901,832	238,387,671	142,061,862
	<u>964,958,238</u>	<u>22,491,661</u>	<u>987,449,899</u>	<u>726,779,395</u>

The change in fair value of available for sale investments amounting to SR22,491,661 is included in Shareholders' equity as at December 31<sup>st</sup>, 2010 (December 31<sup>st</sup>, 2009: (SR10,327,770)).

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2010 (continued)

### 6. PREPAID EXPENSES AND OTHER ASSETS

	2010 SR	2009 SR
Loans to employees	2,430,000	2,499,731
Prepaid consulting services	1,687,860	-
Prepaid rent	1,068,318	1,256,390
Advances to employees	987,875	848,270
Prepaid software maintenance	651,896	209,019
Others	304,038	506,965
	<u>7,129,987</u>	<u>5,320,375</u>

### 7. PROPERTY AND EQUIPMENT, NET

	Computer hardware SR	Computer software SR	Furniture and fixtures SR	Office equipment SR	Motor vehicles SR	Leasehold improvements SR	Total SR
<b>Cost</b>							
January 1 <sup>st</sup> , 2010	15,842,875	12,613,090	4,555,383	4,580,416	126,470	7,382,440	45,100,674
Additions	35,996	-	-	6,200	-	-	42,196
December 31 <sup>st</sup> , 2010	<u>15,878,871</u>	<u>12,613,090</u>	<u>4,555,383</u>	<u>4,586,616</u>	<u>126,470</u>	<u>7,382,440</u>	<u>45,142,870</u>
<b>Accumulated depreciation</b>							
January 1 <sup>st</sup> , 2010	11,115,179	8,356,898	3,399,031	3,254,770	70,174	2,426,600	28,622,652
Charges for the year	3,859,456	3,153,272	1,025,557	1,125,267	31,618	1,119,371	10,314,541
December 31 <sup>st</sup> , 2010	<u>14,974,635</u>	<u>11,510,170</u>	<u>4,424,588</u>	<u>4,380,037</u>	<u>101,792</u>	<u>3,545,971</u>	<u>38,937,193</u>
<b>Net book value</b>							
December 31 <sup>st</sup> , 2010	904,236	1,102,920	130,795	206,579	24,678	3,836,469	6,205,677
December 31 <sup>st</sup> , 2009	<u>4,727,696</u>	<u>4,256,192</u>	<u>1,156,352</u>	<u>1,325,646</u>	<u>56,296</u>	<u>4,955,840</u>	<u>16,478,022</u>

### 8. RELATED PARTY TRANSACTIONS

The significant transactions with related parties and the related amounts are as follows:

	2010 SR	2009 SR
Corporate finance income from partners in an associate	1,350,000	1,900,000
Brokerage income from shareholders	986,158	1,331,926
Gain on sale of shares in an associate (Note 15)	-	20,459,999
Board meetings related expenses (Note 16)	308,489	206,632

Accounts receivable from related party consist of the following:

	2010 SR	2009 SR
Account receivable from a shareholder	-	22,296,371

## 9. INVESTMENT IN AN ASSOCIATE

The movement in investment in an associate for the year is as follows:

	2010 SR	2009 SR
Beginning balance	175,675,947	187,002,171
Disposal	-	(1,836,371)
Share in net income (Note 15)	3,888,674	6,241,370
Change in fair value of investments	-	(15,731,223)
Ending balance	179,564,621	175,675,947

The change in fair value of investments picked up by the Company as a result of the application of the equity method of accounting since inception amounting to SR157,312,229, as at December 31<sup>st</sup>, 2010 is included under shareholders' equity (December 31<sup>st</sup>, 2009: SR157,312,229).

## 10. ZAKAT AND INCOME TAX

The principal elements of the Zakat base are as follows:

	2010 SR	2009 SR
Share capital	842,450,000	500,000,000
Statutory reserve	17,007,929	13,447,353
Retained earnings	123,211,478	121,026,182
Investments	(983,321,956)	(755,470,882)
Property and equipment	(33,581,253)	(16,478,022)
Provisions	5,492,773	3,940,974
Adjusted net income	91,236,217	37,309,253
Zakat base	62,495,188	(96,225,142)

### Zakat

	2010 SR	2009 SR
Portion of the Saudi shareholders' adjusted net income/Zakat base (2010: 90%, 2009: 90%)	81,785,229	34,436,952
Zakat for the year (2.5%)	2,044,631	860,924

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2010 (continued)

### Income Tax

	2010 SR	2009 SR
Portion of adjusted net income for non-Saudi shareholders (2010: 10%, 2009: 10%)	9,450,988	2,872,301
Income tax for the year (20%)	1,890,197	574,460

The movement of the provision for Zakat and income tax is as follows:

	2010 SR	2009 SR
Beginning of year	1,435,384	5,995,529
(Excess) under provision of previous year	(153,047)	376,698
Provision for the year	3,934,828	1,435,384
Payment during the year	(1,282,337)	(6,372,227)
Total Zakat and income tax	3,934,828	1,435,384

The Company has submitted its Zakat and income tax returns for the years ended December 31<sup>st</sup>, 2007, 2008 and 2009 which are still under review by DZIT.

### 11. SHORT-TERM LOAN

During year 2010, the Company obtained a bank facility in the form of Islamic Murabaha from a local commercial bank amounting to SR299,994,267 (2009: Nil) to finance the Company's working capital. This facility is secured by a promissory note. It matures on November 30<sup>th</sup>, 2011 and is subject to a fixed commission rate of 3.85% per annum.

### 12. SHARE CAPITAL

During the year ended December 31<sup>st</sup>, 2009, 6,849,000 new shares of SR10 each were issued after the approval by the shareholders at their Extraordinary General Assembly meeting held on April 15<sup>th</sup>, 2009 to increase the share capital of the Company from SR500,000,000 to SR568,490,000 which resulted in a share premium amounting to SR273,960,000, is included in statutory reserve.

### 13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2010 SR	2009 SR
Accrued employees salaries and related benefits	36,998,713	13,568,800
Accrued commission	769,985	-
Accounts payable	381,087	-
Suppliers of fixed assets	100,828	360,707
Provisions and other liabilities	500,000	500,000
	38,750,613	14,429,507

#### 14. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

#### 15. REVENUES FROM PROPRIETARY INVESTMENT

	2010 SR	2009 SR
Realized gains (losses) on sale of available for sale investments	47,726,279	(951,399)
Dividends income	24,961,469	9,766,657
Unrealized gains (losses) on held for trading investments	19,170,995	(2,204,080)
Underwriting fees	9,430,000	-
Realized gains on held for trading investments	4,944,072	14,393,924
Share in net income of an associate (Note 9)	3,888,674	6,241,370
Commission income	52,935	1,006,395
Gain on sale of share in an associate (Note 8)	-	20,459,999
	<u>110,174,424</u>	<u>48,712,866</u>

#### 16. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2010 SR	2009 SR
Professional and consulting fees	6,061,303	3,317,278
Maintenance	3,174,190	2,743,963
Subscription fees	2,626,473	2,843,602
Provision for doubtful debts	2,137,500	-
Traveling expenses	2,044,843	2,208,542
Telecommunication	1,992,871	1,572,188
Contractual labor	1,300,465	1,359,360
Advertisement	815,410	1,926,941
Utilities	392,826	493,085
Printing	392,570	312,078
Insurance	390,000	369,749
Withholding taxes	381,799	310,933
Board meetings related expenses (Note 8)	308,489	206,632
Conference expenses	308,089	39,519
Security expenses	82,700	359,080
Training	71,183	87,351
Other	1,774,560	1,981,847
	<u>24,255,271</u>	<u>20,132,148</u>

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2010 (continued)

### 17. OTHER INCOME

	2010 SR	2009 SR
Gain on sale of property and equipment	-	2,428,363
	-	2,428,363

### 18. RESTRUCTURING COSTS

On December 3<sup>rd</sup>, 2008, the Board of Directors' Executive Committee approved the restructuring of the Business Development Department as recommended by the Company's management, resulting in the closure of the regional trading branches and the creation of a new department "Wealth Management".

The restructuring includes closure of all trading branches located in Riyadh, Jeddah, Hafouf and Khobar.

	2010 SR	2009 SR
Closure of branches		
- Rent expenses	-	1,924,590
- Fixtures	-	1,035,663
	-	2,960,253

### 19. EARNINGS PER SHARE

Earnings per share from operations for the year is calculated by dividing the income from operations for the year by the weighted average number of shares for the year ended December 31<sup>st</sup>, 2010 and 2009 and amounting to 56.849 million shares.

Earnings per share from net income for the year is calculated by dividing the net income for the year by the weighted average number of shares for the year ended December 31<sup>st</sup>, 2010 and 2009 and amounting to 56.849 million shares.

### 20. SEGMENT INFORMATION

The Company operates solely in the Kingdom of Saudi Arabia. For management purposes, the Company is organized into business units based on services provided and has the following reportable segments:

#### Investment banking services

Investment banking provides corporate finance advisory, private placements, public offerings of equity and debt securities, trade sales, mergers, acquisition, divestitures, spin-offs, syndications and structured products.

#### Brokerage

Brokerage operates under the brand of Jadwa Investment and acts as principal and agent, providing custody and clearing services to clients, providing access to regional exchanges.

#### Asset management services

Jadwa Investment asset management offers investors gateways into the GCC and Arab stock markets, and conventional equity and Shariah compliant investment funds using both active and passive management styles. In addition, offers Saudi Total Return Swaps (TRS), which provide international investors with access to the Saudi stock market.

## Corporate

Corporate manages future corporate development and controls all treasury related functions. All proprietary investments are incubated within this business segment, which also comprise strategy and business development, legal and compliance, finance, operations, human resources and client relation management.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss.

Year ended December 31 <sup>st</sup> , 2010	Investment banking services SR	Brokerage SR	Asset management services SR	Corporate SR	Total SR
Revenue	25,299,431	4,310,924	95,888,851	111,116,924	236,616,130
Expenses	20,163,723	8,517,784	36,083,415	61,612,485	126,377,407
Income (loss) from operations	5,135,708	(4,206,860)	59,805,436	49,504,439	110,238,723
Total assets	35,131,424	-	15,097,286	1,567,221,789	1,617,450,499
Total liabilities	7,668,641	774,588	14,825,927	325,251,104	348,520,260
<b>Year ended December 31<sup>st</sup>, 2009</b>					
Revenue	28,412,300	5,789,907	60,735,631	49,637,710	144,575,548
Expenses	18,713,819	9,113,105	32,630,648	47,603,632	108,061,204
Income (loss) from operations	9,698,481	(3,323,198)	28,104,983	2,034,078	36,514,344
Total assets	41,164,280	-	17,689,831	1,119,556,919	1,178,411,030
Total liabilities	2,918,700	434,659	5,747,009	11,232,296	20,332,664

## 21. COMMITMENTS AND CONTINGENCIES

At December 31<sup>st</sup>, 2010, the Company had an outstanding commitment in the form of a letter of guarantee with respect to its share of the investment in an associate amounting to SR270 million (2009: SR285 million).

## 22. CLIENTS' CASH ACCOUNTS

At December 31<sup>st</sup>, 2010, the Company was holding clients' cash accounts amounting to SR145.67 million (2009: SR131.38 million), 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.

## 23. 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. The Company's financial assets consist of cash and cash equivalents, accounts receivable, held for trading investments, available for sale investments, investment in an associate and other assets and its financial liabilities consist of short-term loan, Zakat and income tax provision and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

# Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2010 (continued)

## 24. ASSETS UNDER MANAGEMENT

These represent the mutual funds' assets related to the funds unit holders managed by the Company, which amount to SR7.7 billion as at December 31<sup>st</sup>, 2010 (2009: SR6 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements.

## 25. RISK MANAGEMENT

### 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. Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash at bank, investments and other receivables. The Company's cash equivalents and investments are placed with banks and third parties of repute and hence the credit risk is limited. The credit risk with respect to other receivables is limited as the total amount receivable is spread over a number of accounts.

### Foreign exchange risk

Currency risk is the risk that the value of a financial investment will fluctuate due to change in foreign exchange rates. Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi Riyals.

### Commission rate risk

The Company is subject to commission rate risk on its commission bearing bank time deposits and short-term loan.

The sensitivity of the income is the effect of the assumed changes in commission rates on the Company's profit for one year, based on the floating rate financial assets and financial liabilities held at December 31<sup>st</sup>, 2010. There is no impact on the Company's shareholders' equity.

### Liquidity risk

Liquidity risk is the risk that arises from the difficulty of selling an asset in a timely manner and quickly enough to prevent or minimize a loss. Liquidity risk is closely monitored by performing regular review of available funds and present and future commitments.

### Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Company's investments are susceptible to market price risk arising from uncertainties about future prices. The Company manages this risk through diversification of its investment portfolio in terms of geographical distribution and industry concentration.

## 26. COMPARATIVE FIGURES

Certain figures for 2009 have been reclassified to conform with the presentation in the current year.

