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Custodian of the Two Holy Mosques  
**King Abdullah bin Abdulaziz Al Saud**



His Royal Highness, Crown Prince  
**Prince Salman bin Abdulaziz Al Saud**  
First Deputy Prime Minister



His Royal Highness, Deputy Crown Prince  
**Prince Muqrin bin Abdulaziz Al Saud**  
Second Deputy Prime Minister

# Vision

To be the preferred choice of genuine Islamic banking solutions.

# Mission

To strive through initiatives and innovation to provide our banking services on a genuine Islamic basis to meet the ambitions of our stakeholders: clients, employees and shareholders.

# Values

Initiative and Innovation.

Care and Partnership.

Trust and Accountability.

# Board Memebers

**Eng.  
Ahmad  
bin Abdulaziz Alohal**

Board Director  
Member of the Nominations &  
Compensations Committee

**Eng.  
Abdulmohsen  
bin Abdullatif Alissa**

Board Director

**Mr.  
Nasser  
bin Mohammed Al-Subeaei**

Vice Chairman of the Board  
Member of the Executive Committee  
Member of the Nominations &  
Compensations Committee

**Mr.  
Khalid Al-Jasser**

Chief Executive Officer

**Dr.  
Abdulrhman  
bin Ibrahim Al-Humaid**

Chairman of the Board of Directors  
Chairman of the Executive Committee

**Mr.  
Khalid  
bin Abdulrahman Al-Rajhi**

Board Director  
Member of the Executive Committee





**Mr.  
Fahad bin  
Abdullah Bindekhayel**

Board Director  
Member of Risk and  
Compliance Committee

**Mr.  
Khalid bin  
Abdulaziz Al-Mukairin**

Board Director  
Member of the Executive Committee  
Member of the Nominations &  
Compensations Committee

**Mr.  
Ahmed bin  
Abdulrahman Alhossan**

Board Director  
Chairman of the Audit Committee

**Mr.  
Khalid bin Abdullah  
Al-Subeaei**

Board Director  
Member of the Audit Committee

**Dr.  
Ibrahim bin  
Abdulrhman  
Al-Barrak**

Board Director

**Mr.  
Mr. Abdulrhman Bin  
Mohammed Ramzi Addas**

Board Director  
Member of the Executive Committee  
Chairman of Risk and Compliance Committee  
Chairman of the  
Nominations & Compensations Committee





# Chairman's Statement

Dr. Abdulrhman bin Ibrahim Al-Humaid

In the name of Allah, the Merciful, the Compassionate.

Praise be to Allah, and may prayers and peace be upon the Messenger of Allah, Mohammad bin Abdullah, his family and companions.

On behalf of myself and the Members of the Board of Directors, it gives me great pleasure to place the Annual Report for 2013 in the hands of our honorable shareholders. The report shows the general performance of the Bank, outlines the rights of shareholders, describes our major activities and operational results, and presents financial statements for the fiscal year ending 31 December 2013.

With the help and guidance of Allah Al-Mighty, the Bank has achieved positive financial and operational results and has pursued and realized constant development and improvement. The monetary and financial policies adopted by the judicious and wise Government of the Kingdom of Saudi Arabia were the principal reasons for the success of Bank Albilad and Saudi Banks in general. Such policies have raised the profile of Saudi Banks within the country and internationally and have increased their ability to deal with risks and maintain a high and stable level of financial solvency.

During the past year, Bank Albilad has pursued a new strategy to respond to the rapid economic changes and developments prevalent in the financial sector, with particular attention to the competitive environment in which the Bank operates. In this respect, the Bank placed “building the human element” at the top of its objectives; strong human relationships are fundamental to achieving all other objectives. Establishment of true Islamic banking is foremost among the Bank's objectives. Bank Albilad's goal is to develop an ideal model that could be followed worldwide. In addition, the Bank is committed to providing unparalleled value to our current as well as future customers, shareholders, investors and depositors. Bank Albilad is determined to recognize the needs of all stakeholders and to provide solutions and services that meet those needs. We have also imposed on ourselves the duty of effective service to the society to which we belong; we recognize that we bear a great responsibility towards this society and this country, “Albilad”.

Finally, on behalf of myself and in the name of the Board of Directors, the Executive Board, and all Bank employees I extend the most solemn gratitude and respect to the Custodian of the Two Holy Mosques, His Highness the Crown Prince and His Highness the Second Deputy Premier—may Allah's blessings be upon them—for the constant kindness and support they have bestowed on the Banking Sector. I also extend my thanks and appreciation to the Government and private institutions, particularly the Saudi Arabian Monetary Agency, the Ministry of Finance, the Ministry of Commerce and Industry and the Financial Market Commission. I further extend my thanks to the Board of Directors, the Executive Board, Bank Albilad shareholders and partners as well as its honorable customers for their trust, which the Bank acknowledges and values. Finally, I commend and praise the “crew of the sailing ship”, the Bank employees who work with constant dedication, loyalty and competency. After Allah Al-Mighty, they are primarily responsible for our achievements. We trust that they will continue to spare no effort to ensure that Bank Albilad successfully navigates the turbulent seas of economic change and steadily advances with full faith that success is but from Allah Al-Mighty's Guidance and His Will.



# CEO's Statement

Khaled bin Sulaiman Al-Jasser

In the name of Allah, praise be to Allah, and may prayers and peace be upon the Messenger of Allah, Mohammad bin Abdullah, his family and companions.

The Honorable Bank Albilad Shareholders, may Allah's mercy and blessings be upon you.

With the help and guidance of Allah Al-Mighty, Bank Albilad is blessed with continuous growth. The "Ship of Albilad" continues to sail confidently amid the fluctuations of the world economy, always charting a course towards success, and is confident that it will fulfill the expectations of Bank Albilad sponsors, shareholders, customers, and its employees.

Since the year 2010, Bank profits have continued to grow and in 2013 reached S.R. 729 million. Such growth is unprecedented in the Saudi banking sector and necessitates focus not only on investment returns but also on competition in terms of volume of such returns.

Equilibrium between returns on investment and returns to the society defines Bank Albilad's business culture. Accordingly, the Bank continues to contribute to the society in diversified fields with particular emphasis on scientific contributions, volunteer charitable work and other social services. By doing so, the Bank will enjoy the opportunity to be a pioneer national institution and contribute to the growth of the national economy and thus to the prosperity and advancement of the citizens of this country.

It is our profound duty in Bank Albilad to exert our utmost endeavors and efforts to maintain what we achieved by continuing to develop innovative products and solutions. We are grateful to the honorable Board of Directors, who have approved a comprehensive five-year strategy to respond to the aspirations of the shareholders and customers for real Islamic banking solutions. The Bank will remain worthy of the responsibility and will continue to attract the best qualified competencies, which represent the true capital in our investments.

The support of the honorable Board of Directors for Bank Albilad through their participation, care and concern is the basis of steady success—after blessing from Allah Al-Mighty. Such support represents the fuel we use to "sail" towards accomplishments that return benefits not only to our shareholders and partners but to all areas throughout the country and to all its citizens.

May Allah Al-Mighty guide all to success and advancement.





## As we have always been

Despite turbulent global economic conditions, 'the ship of Bank Albilad' continues to sail steadily and confidently. The bank's voyage began with and continues to hold fast to a clear objective. Exploring new and sometimes treacherous waters, Bank Albilad hoisted the sails of economic competition and set an ambitious course to be among the first to develop a sound and profitable Islamic banking sector in this blessed Country. With a crew of dedicated employees and under the captaincy of expert and knowledgeable management, the 'ship of Bank Albilad' steers a steady course to safe anchorage in the harbour of prosperity for its shareholders and customers.

مَصْنُوعَاتُ الْغَايَةِ وَالصُّبْحَابُ تَجِدُ فِيهِمَا النَّحْدِي لَعَا  
مَصْنُوعَاتُ الْغَايَةِ وَالصُّبْحَابُ تَجِدُ فِيهِمَا النَّحْدِي لَعَا



1513/2019

مَصْنُوعَاتُ الْغَايَةِ وَالصُّبْحَابُ تَجِدُ فِيهِمَا النَّحْدِي لَعَا  
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**2013 was a year of both challenges and blessings. During the year, all the Departments and Divisions of the Bank, having diversified duties and responsibilities, have met these challenges successfully. The achievements of these Divisions and Departments are the following:**

### Retail Banking Division

The importance of the bank's strategy involves both the determination and implementation of the strategy. Implementation must consider implications on the bank's performance and its activities. The Retail Banking Division has been successful in implementing the strategy. Work towards development and establishment of new branches, development of systems and products as well as expansion of Bank taskforce teams was successfully performed and has resulted in the following achievements:

#### Deposits and Financing

Customer trust has increased and the bank-customer relationship has strengthened significantly. This is evident from the increase in both the customer base and individual deposits, which rose as a result of individual customer's banking deposits after the expansion of our customer base. The financing portfolio has increased by 24.8%, enhanced by 14 modern branches. The new branches, which feature contemporary architectural designs, are located throughout the country. New branches in Riyadh, Al-Madinah Al-Munawarah, Buraidah, Rabegh, Al-Namas, Al-Hawiyah, Sarat Obaidah, and Mahiyl Assir joined the extensive existing network of branches. At the end of 2013, Albilad had 102 branches serving gentlemen and 40 branches that provided services to ladies, to become increasingly accessible and provide convenient service to our loyal customers.

#### Individuals Financing

**– The Consumer Financing Division's strategy is represented by the following:**

- Increase the bank's market share in that sector.
- Preserve the quality of the financing portfolio through effective risk management.
- Application of basic legislative controls in all transactions relating to products and credit services to ensure our

practices comply with the legislation and relevant Shariah conditions.

- Distinction in rendering unique services and ensuring that our services meet our customers' ambitions and expectations by reducing the turn-around time.
- Innovation in providing financing solutions that distinguish our offerings from those of competitors in the banking sector.
- The safe-keeping of the country's assets and wealth and faithfully serving the people of this country.

#### – Products:

Continuous development and improvement of services rendered and banking products provided is our main concern. We have developed and introduced innovative financing products and opened numerous competitive sale channels. The following are our major competitive offerings:

- Real estate leases and real estate investment products.
- Debt payment for real-estate financing and personal financing products.
- Mortgage financing.
- Financing through the Saudi Real Estate Development Fund.
- Personal financing without transfer of salary (for Banking Sector Personnel).
- "Taleem" education product.
- Car leasing product.
- Refinancing product.
- 'Dhamen' (Guarantor) Program in cooperation with the Saudi Real Estate Development Fund.



With the grace of Allah, the investment portfolio for individual financing has noticeably increased compared to 2012. As a result of our commitment to the provision of competitive consumer finance products, the balance of the investment portfolio for individual financing has increased by 26.7% year-over-year. At the end of 2012, the balance was S.R. (7.5) billion; by the end of 2013 it has increased to S.R. (9.5) billion. Moreover, the number of customers benefiting from our consumer finance products in 2013 increased by 18.3% to approximately 71 thousand compared to approximately 60 thousand customers in 2012.

### 'Enjaz' Division

"Enjaz" is the Albilad Bank's proven and well-established trade mark in the field of money transfers. Enjaz is considered a pioneer in the provision of international and domestic transmittal services. Enjaz enjoys a reputation for high integrity, reliability and efficiency. In most circumstances it takes only a few seconds for transferred money to reach the beneficiary's correspondent bank. In addition to providing service to Saudi citizens, the Enjaz Division emphasizes service to the expatriate community. From our conveniently located remittance centres, expatriate customers can avail themselves of foreign currency transfers to more than 200 countries.

Throughout its relatively short history, Enjaz has made great progress. Enjaz was launched in 2005, the same year as Bank Albilad. In its start-up phase, Enjaz created its identity in the banking sector by gaining the trust of its customers and attempting to perfect its services. By 2008, Enjaz reached the peak of its success and has continued to gain an excellent reputation. The extensive and reliable service has gained customer trust and satisfaction. Enjaz has become the preferred partner for money transfers for a vast sector of the society.

Today, there are 151 Enjaz Network Branches throughout the Kingdom, covering the most vital locations and important areas. Enjaz develops its financial services in money transfers through its close relationships with trustworthy and dependable international and foreign banks as well as with banking partnerships with several internationally renowned companies and institutions in the field of money transfers.

2013 witnessed the introduction of new services, the launch of several distinguished products, and the opening of additional channels with correspondent banks. Products and services have been designed and tailored to meet customer needs and expectations. Enjaz currently provides a comprehensive set of options for transferring money abroad and domestically. Enjaz has developed products and services that meet customer requirements. These options include:

- **International Remittances**
  - Enjaz Easy
  - Enjaz Swift
  - Western Union
- **Local Remittances**
  - Enjaz 2 Enjaz
  - SARIE
- **Draft Services (locally and internationally)**
- **Foreign Currency Exchange (all major currencies)**
- **'Sadad' Services**
- **Cash deposits to current Bank Albilad accounts.**
- **VIP Services.**

### Corporate Banking Division

Bank Albilad strives to provide banking and financing services to the most important categories in the corporate sector, including general and private organizations, businesses and corporations of all types. The division is continuously working to improve the current offerings and introduce new products to the market that match clients' needs. The division is also focused making the best use of technology and relies on e-services to accelerate internal processes and reducing clients' wait time. Moreover, since Albilad believes in the importance of specialization to increase efficiency, the corporate banking division has been diversified to include several departments, enabling each department to understand and focus on the specific clients' needs. The departments are:

- Small and Medium Enterprises.
- Private Companies and Establishments.
- Government and Semi-Government Bodies and Institutions.
- Charitable Societies.
- Local and International Financial Institutions.

The year 2013 has witnessed a qualitative shift and growth in a number of services rendered to these sectors. We have gained the trust of new customer categories after specialized and comprehensive field and marketing studies conducted by prominent local and international agencies. During the year, we have also witnessed improvement in work procedures, including automation of certain tasks that has elevated the level of service, performance, and transparency. Implementation of automated procedures has also reduced operational risks, and increased efficiency and performance. Finally, during the past year we have also witnessed the graduation of a new group of students who benefited from Bank Albilad's scholarship program. They include undergraduates and graduate students who studied at local universities and abroad. These graduates were well trained in professional banking and risk-assessment disciplines and they have recently joined the taskforce team under the supervision of senior employees, to ensure continuous development and the transfer of experience to a new generation.

### Treasury Division

The importance of the Treasury Division has increased in 2013; it has played a fundamental role in the progress and success of Bank Albilad through exploring new and diversified possibilities for growth. This has been done in line with a strategy that focused on the restructuring of the division, employment of competencies in leadership positions, consolidation of relationships within the Albilad banking system, focus on customer needs, and provision of competitive products that are consistent with the Islamic Sharia.

The most important contributions of the Treasury Division are represented in the following:

- Balance sheet management (ALM, Gapping, Sukuk portfolio).
- Managing profit rates and FX volatility risk.
- Bank-wide customer service (Bai Ajaal, FX, Direct Investment, Wakala, Bilad account).
- Bank note business growth.
- In-house economic research.

In 2013, the Treasury Division underwent restructuring which resulted in increased coherence. The restructuring involved the formation of an expert taskforce team to market the division's products. As a result, the wholesale trade of cash banknotes doubled, the "Sukuk" Portfolio has been built and expanded, and the bank's market share in several competitive markets also increased.

The dynamics of this division and the steady pace of its development indicate that it will play a larger role in bank activities in 2014. It is anticipated that the division's products will be the first choice of customers looking for banking solutions that are in line with the Islamic Sharia. The treasury field presents many challenges for Islamic banking; however, we are confident that after hard work and persistence we will discover new and innovative solutions that will add value to Bank Albilad and to the citizens of Saudi Arabia.

### Risk Group

During 2013, the Risk Divisions effectively managed to identify, assess, and manage risk, and ensured the application of best-in-class risk assessments and control practices. Overall, the division was focused on ensuring that Albilad achieved an appropriate equilibrium between revenue and expected risks.

The tasks of the Risk Divisions are separate and independent from the operational activities of the bank. This is in accordance with the instructions and guidance of the Saudi Arabian Monetary Agency (SAMA) and the framework of the Bank for International Settlements, an international organization that manages regulation of financial services to foster international financial stability.

The Risk Division is responsible for a number of different types of risks that can affect a financial institution. These include credit and liquidity risks as well as operational and market risks. The periodical review of the Risk Division's policies and regulations is considered one of its essential and fundamental responsibilities due to the importance of the Risk Division. These reviews provide insight into changing market conditions and changing financial practices in the international banking sector.

## Bank Albilad Divisions' Activities

## Credit Risk

Credit Risk is considered the most prominent risk faced by the bank through its various investment and financing activities. As credit risk is spread across a wide range of products and activities, work activities are segmented into multiple sections; however, all sections adhere to a unified set of procedural guidelines in accordance with approved credit policies and procedures.

### Credit Risk Assessment

The Bank applies cautious and accurate quantitative and qualitative measurement standard to assess credit risk. Presently, Albilad employs Moody's Analytics risk analysis system to assist in the internal assessment of credit risk customer companies. Moody's Analytics is a subsidiary of Moody's corporation, best known as a credit rating agency. Following the standards set by Moody's Analytics, Albilad Bank assesses customer companies in relation to likelihood of default, amount of default, and the impact of losses resulting from default. In future, the bank intends to upgrade current internal assessment methods for customers with small to medium balances to be consistent with Moody's system. The goal is to provide all clients with accurate and fair assessments.

### Credit Risk Alleviators and Controls

Bank Albilad uses many different methods to reduce credit risk. Most important are analytical studies that assess a client's future ability to fulfill his payments obligations by analyzing projected data. Depending on the size of the credit facility and the degree of risk, credit approval requires authorization from several committees made up of bank executives. Naturally, the Bank demands guarantees that must be fulfilled in exchange for such credit facilities. The types and forms of guarantees vary in nature and can include cash liability coverage, mortgages against investments and assets, reservation of commercial or residential real estate, and financial, personal or third party guarantors. Financing personal credit for individuals is associated with the client's salary transfer to the bank. Other considerations include the bank's credit concentration risk, which is a general assessment of all outstanding credit accounts. The bank continually assesses the volume of credit exposure against set controls that pertain to specific parties and active sectors.

## Monitoring and Reports

The bank conducts an annual comprehensive credit solvency review for all financed corporate customers to ensure that their activities match their financing needs. In addition, the bank prepares reports for each client and visits clients frequently. Customers that are considered to be high credit risks are identified and carefully monitored to ensure that risks are mitigated wherever possible. The portfolio of individual customers who obtained consumer credit facilities and credit cards are also monitored; criteria established for portfolios within a specific segment are used. With reference to the bank's financial records and statements, credit allowances are calculated in accordance with International Financial Reporting Standards for accounts that may result in losses and which may affect expected cash flow from these assets or investments. A comprehensive monthly report that examines the status of the bank's portfolio along with a credit concentration analysis is prepared. This monthly reports is supervised and reviewed by senior management.

## Market Risk

Market risk is defined as the risk of losses arising from movements in market prices that may affect the fair value of future cash flows. Market variables include Murabaha rates, foreign currency exchange rates, and fluctuating stock prices. To comply with both international standards and SAMA regulations, the Bank's portfolios have been divided into two types: trading portfolio and investment portfolio.

### Trading Portfolio

The objective of the trading portfolio is to benefit from market changes and garner short-term returns. According to the Basel Committee on Banking Supervision and the SAMA, the trading portfolio's single exposure is in foreign currency exchange rates. This exposure is a direct result of the bank's need to hold sufficient foreign currency reserves.

### Investment Portfolio

The objective of the investment portfolio is to achieve returns without relying on short-term market changes. The bank invests within average-risk boundaries that could arise as a result of exposure to changing market rates. The exposure is controlled by policies and procedures set and implemented by the senior management and the bank's Board of Directors.

Market risk management professionals monitor the bank's exposure to market risk on a daily basis. The corresponding results are reported to senior management daily and to the Assets and Liabilities Committee and the Board of Directors periodically. In addition, market risk management personnel perform a number of stress tests to assess the impact of exceptional market change scenarios in accordance with international standards and SAMA regulations.

Differing from market risks, liquidity risks result from the bank's inability to meet the net financial liabilities or fulfill them at a tolerable financial cost. Liquidity risk may also develop as a result of the declining quality of the bank's assets or due to economic changes. The bank has decided to diversify funding sources, reduce the degree of concentration, and maintain an acceptable level of liquidable assets to reduce exposure to liquidity risks.

In addition to liquidity risk policies and frameworks, the bank has developed a contingency plan consistent with best management practices and a framework for supervision of liquidity risk issued by the Basel Committee. The bank has also resumed application of Basel 3 standards to assess its ability to manage short-term and long-term liquidity. The Assets and Liabilities Committee plays a strategic role in cash flow accruals, concentrations of current and investment accounts, and the liquidity reserve rate to ensure the effective management of liquidity risk. Liquidity is monitored daily and any transgressions of accepted standard are reported to the committees concerned and the Board of Directors. Other liquidity stress tests are conducted periodically in normal or exceptional circumstances, which can relate to internal conditions or as a result of external factors. In addition to the limits imposed by the SAMA, the Bank has established policies and procedures to set and monitor internal limitations to control liquidity risk.

A periodic review of liquidity risk management policies and procedures is conducted and approved by the Assets and Liabilities Committee and the Board of Directors.

### Operational Risk

The Basel Committee defines operational risk as the risk of losses resulting from inefficiency or errors resulting from implementation mechanisms, personnel, systems, or external events. To manage operational risk, the bank has instituted a tightly controlled strategy within a comprehensive framework supported by policies and procedures to achieve a number of objectives, the most important of which include:

- Realizing the bank's objectives.
- Identification and assessment of operational risk of new and current products, activities, and systems.
- Independent and continuous assessment of procedures, monitoring controls, and performance levels.
- Limiting operational losses and resolving the root causes of such operational losses.

Practical governance measures to mitigate and control operational risk include the following:

- Supervision by the Board of Directors and the senior bank management.
- Formation of a Risk Management Committee to oversee operational risk activities.
- Independent operational risk management assessments.
- Provision of an accurate description of the roles and responsibilities of various operational risk management parties.
- Implementation of internal auditing required for the independent assessment of operational risk activities and provide reports to the Auditing Committee.

The realization of the bank's operational risk management strategy requires the adoption of a number of meticulously studied measures and methodological techniques to identify, assess, rectify, and monitor the bank's various activities.

### Self-assessment of Risks

Self-assessment of risks is a highly effective and efficient protective technique. For this reason the bank approved a stringent self-assessment policy to identify the risks arising from the Bank's products, activities, and operations. When a risk is identified, potential control elements are assessed to alleviate acknowledged risks. The objective is to clarify the effectiveness of these elements in mitigating operational risk. The overall assessment of risk and control elements can be compared to a pre-defined criterion associated with the risk level and boundaries that are acceptable for achieving targeted returns. This process relies on the existence of suitable procedures to enhance the control environment. In addition, the bank continues to provide employees with training programs that increase awareness of operational risk, thereby increasing both their ability to identify existing gaps and the effectiveness of control elements.

## Limiting and Analyzing Data of Operational losses

The loss database, a standard element of operational risk management, and the reports of the Internal Audit Division serve an important role in complementing the self-assessment risk process and control elements, thereby contributing to the achievement of better results. Therefore, Bank Albilad has implemented an advanced system to manage operational loss data that enables analysis of events associated with actual, potential or imminent losses. The process begins with the identification of risks and their causes and then provides recommendations relating to enhancement of control elements. Recommendations are submitted to management personnel directly involved with minimizing financial impacts.

## Key Risk Indicators

Albilad has adopted a methodology to identify and analyze key risk indicators that indicate the level of risk of any activity or specific function. Ongoing measurement and monitoring are conducted to specify the extent of the competence of risk management strategies by identifying strengths and weaknesses. Operational risk management methods are directly related to the periodical reporting system that aims to inform all departments and divisions about the operational risks related to their specific activities. Relevant feedback is solicited to enhance the required control elements and mitigate these risks. Periodical reports also serve to support senior management's prospective decision-making processes related to bank activities.

## Compliance Division

Bank Albilad is strongly committed to complying with the rules and regulations of the supervisory and regulatory bodies. The Bank has undertaken the development and implementation of an integrated compliance program consistent with the strict compliance system that has been established by the SAMA. The most prominent initiatives undertaken in 2013 are:

- Appointment of a full time manager of the Compliance Division under the supervision of the Risk and Compliance Committee.
- Enhancement of the division's structure and development of an effective framework through the creation of new units and branch departments.
- Documentation of requisite compliance policies and procedures.
- Support for the division to attract specialists in compliance procedures and anti Money Laundering.
- Creation of strong relationships between the Compliance Division and other divisions.
- Purchase and implementation of a new system to monitor and control suspected transactions.

The Compliance Division is responsible for continuously reviewing policies, procedures, products, services, forms and contracts, in addition to reviewing and updating business policies and supporting other divisions to verify their compliance with regulatory instructions.

Periodically, the division provides business departments with an updated Compliance Guidebook. In addition, the division communicates with Albilad's affiliates through the bank's intranet to provide education about compliance and cooperates with the Training Division to hold training courses for employees to reinforce the importance of a strong compliance culture. The bank is well aware of the importance of money laundering control; all transactions are reviewed and supervised periodically. The bank investigates suspicious transactions and submits reports to the appropriate authorities.



## Internal Audit Division

The Internal Audit Division is responsible for the effectiveness of internal monitoring, auditing and evaluating several activities, and ensuring the application of managerial and financial policies. The Bank has developed and executed an approved three year risk-based auditing plan (2012–2014). The auditing plan is an outcome of a comprehensive risk evaluation program carried out by the Internal Audit Division with the collaboration of the Audit Committee and the Executive Division during the fourth quarter of 2011.

During 2013, all of the issues and concerns described in comprehensive reports from all divisions, branches and centers were studied and discussed with the various units to follow up on the concerns, establish proper solutions and to revise the plan where appropriate. The Audit Committee and the Executive Division were involved in the discussions. In addition, audit reports, emergency issues forwarded by SAMA or the Bank's Auditing Committee have been studied and related reports have been prepared. Where appropriate, revision and verification related to finalization of changed processes have been made.

The success that has been achieved at all levels is entirely due to the conscientious efforts expended by the various units and personnel involved in the audit division. Professional competencies were attracted to work with the internal audit staff and to train the current cadres to expedite achievement of goals and objectives within the timeframe set for the internal audit plan. These efforts include the development of work performance procedures through the use of an automated system that organizes and records internal audit activities. Tracking work process data and the availability of statistics for various inputs will aid the development of future plans.

The Internal Audit Division maintains a close relationship with the Quality Assurance Unit to ensure continual development and improvement. Particular attention is paid to fraud control. In addition to routine investigations and coordination with respective departments and official authorities, procedures are customized for every individual case of identified fraudulent activity.

## The Shariah Board and Shariah Division

Adherence to the provisions of Islamic Shariah in all transactions is a fundamental principle and value for Bank Albilad and has enabled the bank to realize its vision of becoming the leading provider of Shariah-compliant financial solutions. The Bank's Shariah Board was founded on this platform. The Board operates independently and has a clear set of objectives, missions, authorities and responsibilities. The Board is directly linked to the Shariah Division and is subject to the same managerial and financial regulations as all other divisions in the bank. The Shariah Division consists of six qualified members who have extensive Shariah knowledge and are familiar with modern financial operations. Stemming from the Shariah Board is a Preparatory Committee that consists of four members of the Shariah Board. This Committee performs thorough studies to devise the right products and services, prepare relevant topics for discussion at the Shariah Board level. In addition, the committee is able to make decisions on urgent matters. The Shariah Division is responsible for fulfilling the Shariah Board's requirements. The division has issued a series of ten Shariah publications based on scientific research into the Islamic economy and Islamic financial transactions. In addition, the division has issued more than 300 guidance directives and leaflets and provides Shariah training for bank employees.

The Shariah Division consists of two departments:

1. The Shariah Board Secretariat Department is responsible for studying specific issues and conducting research, preparing the coordinative tasks of the Shariah Board, and reporting the Board's decisions and directives. In other words, it is the link between the bank's departments and the Shariah Board.
2. The Shariah Audit Department ensures that every decision made by the bank has received prior approval from the Shariah Board and that implementation complies with the Board's directives. In addition, the Shariah Audit Department prepares periodical reports and submits these reports to the Shariah Board.

## Information Technology Division

The Information Technology (IT) Division is of paramount importance to the Bank Albilad. Consequently, the bank has allocated resources to ensure that the division can achieve high professional competency and contribute to refinement of the bank's operational performance as well as bank services. The tasks and duties of this division are undertaken by the Executive Manager of Information Technology. The Division consists of several sections:

- IT Solutions and development.
- IT Operations and infrastructure.
- Quality Assurance.
- Projects Management Office.
- Network and Communications.
- IT Compliance and control.

Albilad Bank was the first bank in the Middle East to successfully carry out a completely indigenous T24 upgrade (from R8–R11). Albilad received an award from the Temenos company to acknowledge this achievement. In addition, Albilad was the first bank in the Kingdom of Saudi Arabia to deploy to IPv6. The division's achievements include, but are not limited to, the following:

- Improvement and development of the Bank Albilad website.
- Migration from Core Banking (T24 application) version R8 to R11.
- Implementation of mobile banking on Windows phone, along with Visa and MasterCard Mandates.
- Implementation of Mubashir for Albilad Capital.
- Implementation of IPO subscription services through Internet Banking version 2.
- Application of the new version of "Sadad".
- Transfer of MDC & DRC from IBM Storage to EMC.
- Migration from IBM to EMC Storage.
- Implemented BPM project for Auto lease.
- Upgrading of Western Union's communication link.

2013 has been the launch point for a number of significant initiatives that will enable the Information Technology Division to achieve unparalleled supremacy.

## The Human Resources Division

2013 was a year of transformation and change in the Human Resource (HR) Division. The Bank has sought the assistance of an expert institution in the field of human resources to revise all human resources systems. Eight projects were undertaken to improve Bank Albilad's human resources practices. In addition, the division was restructured to facilitate its participation in implementing new bank strategies. The Human Resources Division works diligently and continually to develop its abilities and attract new talent to support the transformation process and achieve the objectives and tasks assigned to the division.

The major tasks undertaken by the Human Resources Division are as follows:

- Attract new competencies from the market to support the bank's operations and expansion plans.
- Develop skillful individuals and provide them with tools to improve professionally and personally.
- Maintain competencies through numerous programs and plans, such as loans, promotion opportunities, and job advancement.
- Provide quality services for Bank Albilad ambassadors to facilitate government relations and salary payments.
- Design the competitive incentive programs to motivate employees to achieve set objectives.
- Create a professional work environment that leads to exceptional performance.
- Build organizational culture based on cooperation, innovation and trust.

**«Albiladl» earns the award of best financial institution for the protection of credit cards and combating fraud for the fourth time in a row**

For the fourth time in a row, Albilad has earned the leadership certificate (PCI-DSS) as the best financial institution in the Middle East in managing credit cards data protection and anti-fraud for 2013. This certificate is provided by «Truswave» International, in collaboration with «Visa» International, and it monitors banks' effective contributions in

managing credit cards data protection and anti-fraud and risk in the financial services sector. It is worth mentioning that Bank Albilad is the first bank in the kingdom to win the certificate in 2010.



In 2014, the focus will be on transforming HR from a service division to a business partner division. HR will endeavor to implement its strategic projects and will launch an awareness and education communication campaign directed to all bank staff regarding Bank Albilad's new directions and vision.

### Operations Division

The Operations Division is an indispensable division and a key for success. The division has widely applied automation to better serve the customers and reduce the documentation cycle in branch operations. This process will consider regulatory constraints, risk management and risk control, and effective monitoring. To further this objective, a warehouse for to store bank documents was procured to enable organization of archives for easy references.

### The Administrative and Property Services Division

This division is responsible for the provision of administrative services, equipment and supplies required by branches, departments and their annexes. The division is further responsible for all tasks related to services and material supplies, such as contracts, engineering and security. In addition, the division participates in setting the estimated budget and reviews construction and administrative costs of bank projects. The division is also responsible for the provision of administrative backup and support required by the bank's branches and departments. In 2013, the division participated in preparation, implementation and handover of a number of the Bank's projects as follows:

#### Albilad Branches Projects

Nine new Bank Albilad branches were opened in 2013 in Al-Sadhan – Riyadh, Surat Obaidah, Alhawiyah – Al-Taif, Al-Hijrah Road – Al-Madinah Al-Munawarah, Irqa-Riyadh, Rabeq, Al-Khaleej-Buraidah, Al-Eraijah – Riyadh, and Al-Nasseem Al-Quarbi- Riyadh.

#### Enjaz Branches Projects

Eleven Enjaz branches were brought online during 2013 at the following locations: Tabuk Al-Manshiyah (transferred), Amir Salman Industrial Area – Riyadh, Yanbu Al-Hadaieq, Dammam Industrial Area, Al-Hammrah – Hassa (transferred), Sharourah, Dammam main branch (Expansion), Alkharj, Albalad – Jeddah (Expansion), Al-Hijrah Road – Al-Madinah Al-Munawarah, and King Khaled Airport – Riyadh.

#### Other Projects

With the grace of Allah, preparation of the new headquarter building has begun and is expected to be concluded by the end of 2014. In addition, the new Albilad Capital Company headquarter was constructed, and the building in front of the current headquarters in Al-Malaz was renovated and equipped.

#### ATM Implementation Projects

Significant number of ATM projects throughout the Kingdom were constructed and completed:

- 43 drive-through ATMs.
- 44 room type ATMs.
- 98 lobby ATMs.
- Operated 128 new ATMs during 2013.

### The Legal Division

The Legal Division performs specialized tasks primarily focused on the provision of legal consultancies and handling legal affairs that support all departments and branches of the Bank in accordance with established policies. The primary objective of the division is to provide legal advice internally, and to protect and maintain the bank's rights and assets and initiate legal action if rights are infringed. The division also defends the Bank in lawsuits brought against the Bank.

## The Financial Control Division

The Financial Control Division is responsible for budgeting, fixed asset management, financial strategy, regulatory management, fiscal reporting, and Zakat and tax related matter. Moreover, the division provides senior bank managers with accurate financial and fiscal reports on a timely basis to support sound and effective decision making. The division pays particular attention to adherence to SAMA and International Financial Reporting Standards.

## Marketing and Communication Division

The presence of media and marketing was quite prominent during 2013. The division launched numerous marketing campaigns relating to products provided by the business sectors as well as Albilad's "Mubadarah" campaigns. Albilad "Mubadarah" campaigns are considered the window for social services provided by Bank Albilad to the Saudi society. The social services included a project that provided breakfast for those observing Ramadan, clothes for the poor distributed on the Eid festival at the end of Ramadan, and the distribution of a smart phone application, "Fa`athkorouni", which means "Remember me", to the general public during Ramadan. Furthermore, in all initiatives, Bank Albilad's marketing approach maintains a conscious equilibrium between return on investment and returns to the society.

The Marketing and Communications Division continues to extend its support to the business and other support divisions. In all communications, internal and external, and public relations activities, the division emphasizes professionalism. The division also conducts marketing research and provides the business divisions with data and statistics that support the implementation of the bank's strategy. Overall, the Marketing and Communications Division utilizes all available communication channels –traditional and digital– to strengthen Bank Albilad's reputation as a leading Islamic and modern banking institution.

## Albilad Capital Company

Albilad Capital, operating under Islamic Shariah principles, is the investment banking arm of Bank Albilad. Albilad Capital's extensive knowledge and expertise, as well as its strong connections in the Saudi market, help its customers achieve their investment objectives. The company has acquired all necessary licenses, required to pursue its investment activities, from the Capital Market Authority. The company services include investment banking, asset management, and brokerage, as well as research and advisory services.

### Investment Banking

The Investment Banking department provides a unique range of Shariah-compliant services. This department is considered a pioneer in providing corporate finance services through arranging, managing and underwriting services related to debt and equity markets, as well as mergers and acquisitions, and advisory services. This department tailors its products to meet specific customer requirements and prepares corporate financial evaluations to help determine a company's financial needs. These services are handled by a specialized team of highly qualified professionals. The department also enjoys extensive professional relationships with financial, legal, and accounting firms, and utilizes their services to better serve its customers and help them achieve their objectives. The Investment Banking department maintains a large database of companies in the industrial, real-estate, and service sectors.

### Albilad Capital Fund (Akar) obtains a MENA Fund Manager Award

Albilad Capital Company has won the MENA Fund Manager Award (Gulf Shares) for its Gulf Real Estate Companies' Fund (Akar). The award was presented in Dubai during a ceremony that is considered the biggest gathering of its kind for the region's investment funds' managers. The MENA

Fund Manager Awards are based on several criteria, such as outstanding performance, investment policy and the investment funds' structure.

### Assets Management

The Assets Management Group offers a wide range of asset management services, including discretionary portfolio management and is managing a range of public investments including Al Murabeh, the Islamic money market fund and a number of Islamic equity funds, such as Ithmar, Akar, Amwal, Asayel, and the Al-Seef Fund. These services are offered through diversified departments that manage stocks, Islamic financial markets, and real estate. 2013 is the first year of a five year growth strategy. The services are provided to clients, both individual and institutional, who value the expertise of professional investment managers. Investment portfolios are designed with appropriate risk levels based on client requirements in relation to expected returns.

### Brokerage

The brokerage group enables customers to trade on the Saudi Stock Exchange. Trades can be executed through several channels, all of which are characterized by effectiveness and ease of use. Stock exchange trades are performed by phone or direct contact with customers through our Central Trading Unit. Highly qualified brokers are always ready to take customers' calls, place orders on the Saudi Stock Exchange, and provide information about the latest stock market developments. The brokerage group provides online access to the latest stock prices; customers are also able to buy and sell shares over the Internet. Our online trading platform is efficient, easy-to-use, cost effective, and extremely secure. Furthermore, Albilad Investment Brokerage facilitates trading through stock brokerage firms that are compliant with Islamic Shariah.

### Research and Advisory

The Research and Advisory team issues various types of updates, reports and research studies to help investors make sound investment decisions. These include:

- Reports specific to the Saudi Capital Market and the companies endorsed therein.
- General reports on market developments written in simple language that is easily understood by all types of investors.
- Daily and weekly reports to provide complete market coverage.
- Detailed reports on particular market segments, with particular attention to preferred companies in those market sectors.
- Compared to our competitors, our reports provide more in-depth analysis, particularly for banking and insurance sectors. In the coming year, we intend to continue developing daily and weekly reports and making them available through a wide range of media channels.
- Continual development of daily and weekly reports to be published through the public media.

### Albilad Real Estate Company

Albilad Real Estate Company is a limited liability company that was established on 26/03/1427H, corresponding to 24/04/2006, by virtue of the Companies' Law promulgated by Royal Decree No. M/6 dated 22/03/1385H. Commercial registration was issued under number 1010223341 on 24/08/1427H. The company was established to handle real estate purchases and sales, and the release of real estate mortgages for clients. In addition, the company also manages Bank Albilad's auxiliary real estate assets.



## The New Head Office

Bank Albilad has recently purchased a tower building in Riyadh along King Fahd Road intersecting with Makkah Road to be the new head office. This comes in the interest of the Board of Directors and the Executive Management to meet the growing needs of offices for different divisions of the Bank, and to provide a better working environment for employees.





## «Albilad» at the forefront of the Top 100 Saudi Brands

The brand of Bank Albilad has been named among the top 100 Saudi brands in 2013, according to a recent poll carried out by Leap company. The award was presented by HE Dr. Abdulaziz bin Mohieddin Khoja, Minister of Culture and Information. The event was attended by representatives of international, local and regional media, and the guest of honor HRH Prince Bandar Bin Khalid Alfaisal Alsaud, Chairman of Alwatan Newspaper, the award's sponsor.

«Albilad» came in the overall ranking as the 24th among the awarded 100 brands, and the 4th across the banking sector. The results were announced on Sunday evening 22 December 2013.

**Director of MarComDivision (right), Mr. Mohammed bin Rashid Abaalkheil, receiving the award of the Top 100 Saudi Brands from the Minister of Culture and Information (left), Dr. Abdulaziz bin Mohieddin Khoja.**

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# Board of Directors Report

## To :Bank Albilad Shareholders Assalamu alaikum warahmatullahi wabarakatuh,

Bank Albilad Board of Directors are pleased to present to the shareholders the annual report about its main activities, achievements and the financial results for year ended December 31, 2013

### Operational results

The Bank reported a net income of SAR 729 million with a decrease of 22.6% compared to the year 2012. The decrease was mainly due to gaining of SAR 373 Million as a non-operating income (Extra-ordinary) from selling its land in Aldereiah in Q1 2012. The net income of 2013, after adjustment of the extra ordinary income, increased by 28.2% over 2012. This growth is due to the increase in operating income by 10.4% to SAR 1,917 million for the year 2013, and the increase in income from financing and investment activities to SAR 947 million with an increase of 13% compared with last year.

The net fee income from banking services of SAR 666 million increased by 3.2% compared to 2012 and the net foreign exchange income increased by 5 % to reach SAR 246 million. The operating expenses increased by 1.7% at SAR 1,188 million. The provisions for financing and investment decreased by 38% compared to 2012.

On the infrastructure side, the Bank during the year 2013 opened 14 branches to reach 102 branches, and opened 7 remittance centers (Enjaz) to reach 151 centers at the end of 2013.

On the electronic banking side, the Bank during the year 2013 added 128 Automated Teller Machines (ATMs) to reach 856 ATMs at the end of 2013 to enhance its coverage in the Kingdom, and added 372 Point of Sale to reach 2,123 point of sale at the end of the year 2013.

### Financial position

Total assets of the Bank at the end of 2013 were SAR 36,323 million, an increase of 22% compared with last year. The customers' deposits at the end of the year reached SAR 29,108 million, with an increase of SAR 5,366 million, representing an increase of 22.6%. The net financing also increased to SAR 23,415 million compared to SAR 18,256 million for the last year representing an increase of 28.3%.

### Shareholders' equity

Shareholders' equity stood at the end of the year 2013 at SAR 5,101 million, compared to SAR 4,371 million at the end of 2012. The number of ordinary shares is 400 million shares. The Capital Adequacy Ratio at the end of 2013 was at 17.14% compared to the minimum requirement of 8%.

The Bank increased the capital from SAR 3 billion to SAR 4 billion by issuing bonus shares to its shareholders in the ratio of one share for every 3 shares to become 400 million shares.

The Bank achieved 2.2% as a return on average assets while the return on average shareholders' equity is 15.4% and earnings per share is SAR 1.82 per share.



Net operating  
income increase  
**28.2%**

The bank gained SAR  
373 Million as a  
non-operating income  
(Extra-ordinary) from  
selling its land in  
Aldereiah

After excluding the  
non-operating  
income, the net  
operating income for  
2012 becomes  
SAR 569 million

942

729

569

0

248-

SAR in millions

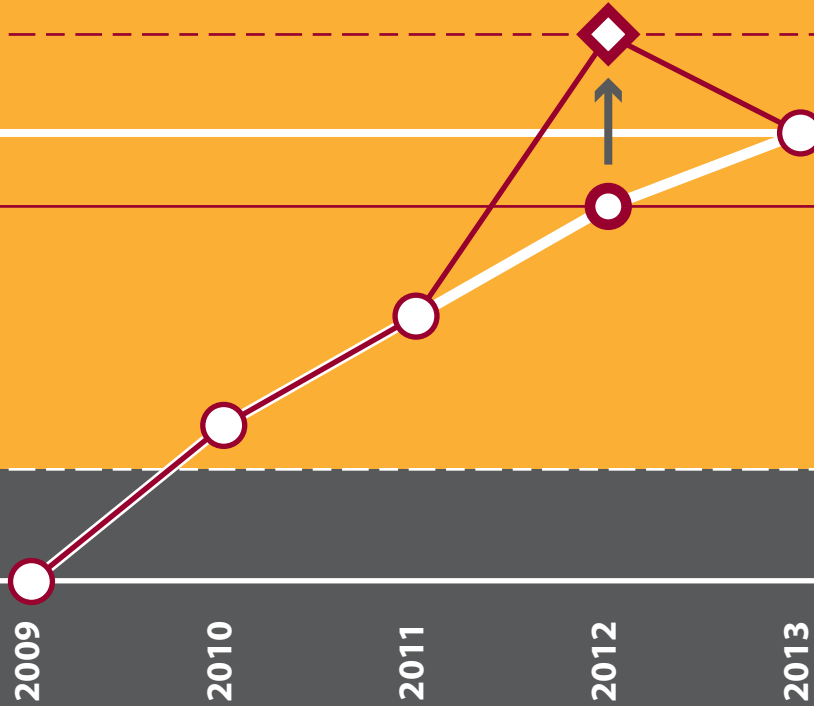
2009

2010

2011

2012

2013



# ATM number increase

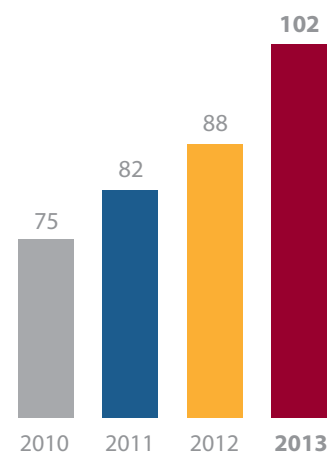
The Bank added 128  
Automated Teller Machines  
to reach 856 ATMs  
at the end of 2013

856 2013

728 2012

582 2011

492 2010



# Bank branches increase

The Bank opened 14 branches  
during the year 2013 to reach  
102 branches,

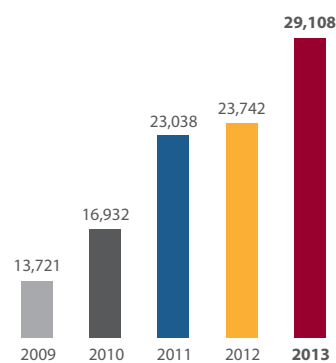


# Operating income increase **10.4%**

Operating income increased by 10.4% at SAR 1,917 million for the year 2013, because of the increase in income from financing and investment activities



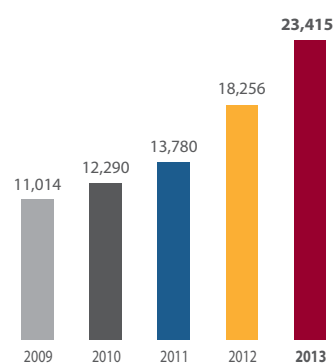
Net operating income  
SAR in millions



Customers' deposits increase

**22.6%**

SAR in millions



Net financing increase

**28.3%**

SAR in millions

## Financial comparisons

The following is an analysis of the major items of Consolidated statement of financial position:

(SAR in millions)

|                            | 2013   | 2012   | 2011   | 2010   | 2009   |
|----------------------------|--------|--------|--------|--------|--------|
| Investments ,net           | 1,667  | 1,537  | 951    | 1,611  | 1,534  |
| Financing ,net             | 23,415 | 18,256 | 13,780 | 12,290 | 11,014 |
| Total assets               | 36,323 | 29,778 | 27,727 | 21,117 | 17,411 |
| Customers 'deposits        | 29,108 | 23,742 | 23,038 | 16,932 | 13,721 |
| Total liabilities          | 31,222 | 25,407 | 24,311 | 18,014 | 14,409 |
| Total shareholders 'equity | 5,101  | 4,371  | 3,416  | 3,103  | 3,002  |

The following is an analysis of the major items of Consolidated income statement:

(SAR in millions)

|  | 2013  | 2012  | 2011  | 2010  | 2009  |
|--|-------|-------|-------|-------|-------|
| Net income from investing and financing assets   | 947   | 840   | 703   | 625   | 548   |
| Fee and commission income ,net                   | 666   | 645   | 458   | 342   | 280   |
| Exchange income ,net                             | 245   | 234   | 189   | 121   | 74    |
| Total operating income                           | 1,917 | 1,737 | 1,374 | 1,099 | 909   |
| Impairment charge on other financial assets ,net | (5)   | -     | -     | 47    | 61    |
| Impairment charge for financing ,net             | 175   | 275   | 252   | 242   | 302   |
| Total operating expenses                         | 1,188 | 1,168 | 1,044 | 1,007 | 1,157 |
| Non-operating income*                            | -     | 373   | -     | -     | -     |
| Net income / (losses) for the year*              | 729   | 942   | 330   | 92    | (248) |

\* The decrease in the net income by 22.6% of 2013 compared with 2012 was mainly due to gaining of SAR 373 Million as a non-operating income (Extra-ordinary) from selling its land in Aldereiah in Q1 2012 .

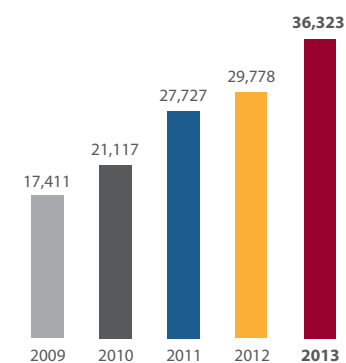
## Major activities

The Bank operations are run through five major business lines as detailed below.

|                                  |  |
|----------------------------------|--|
| Retail banking                   | Services and products to individuals including deposits, financing, remittances and currency exchange.   |
| Corporate banking                | Services and products to corporate and commercial customers including deposits, financing and trade services .                                       |
| Treasury                         | Dealing with other financial institutions and providing treasury services to all segments.   |
| Investment banking and brokerage | Includes investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities. |
| Other                            | All other support functions.   |

## Major activities of the Bank as at December 31, 2013 are summarized as follows

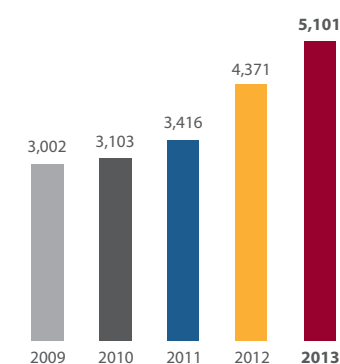
| 2013<br>SAR' 000                                     | Retail<br>Banking | Corporate<br>Banking | Treasury  | Investment<br>banking<br>and<br>brokerage | Other     | Total      |
|--|-------------------|----------------------|-----------|---|-----------|------------|
| Total assets   | 12,229,036        | 14,777,653           | 7,774,105 | 288,500                                   | 1,254,014 | 36,323,308 |
| Capital expenditures                                 | 64,843            | 108                  | 94        | 4,024                                     | 453,946   | 523,015    |
| Total liabilities                                    | 19,067,695        | 10,114,583           | 901,056   | 121,079                                   | 1,018,006 | 31,222,419 |
| Net income from investing<br>and financing assets    | 400,802           | 462,333              | 43,998    | 1,104                                     | 38,385    | 946,622    |
| Fee, commission and other<br>income, net             | 659,284           | 114,716              | 74,888    | 65,566                                    | 56,152    | 970,606    |
| Total operating income                               | 1,060,086         | 577,049              | 118,886   | 66,670                                    | 94,537    | 1,917,228  |
| Impairment charge for<br>financing ,net              | 63,457            | 111,830              | -         | -   | -         | 175,287    |
| Impairment charge for other<br>financial assets, net | -                 | -                    | (5,340)   | -   | -         | (5,340)    |
| Depreciation and<br>amortization                     | 81,592            | 5,983                | 596       | 353                                       | -         | 88,524     |
| Total operating expenses                             | 814,519           | 308,827              | 30,016    | 34,698                                    | -         | 1,188,060  |
| Net operating income for the<br>year                 | 245,567           | 268,222              | 88,870    | 31,972                                    | 94,537    | 729,168    |
| NON- Operating income                                | -                 | -                    | -         | -   | -         | -          |
| Net income for the year                              | 245,567           | 268,222              | 88,870    | 31,972                                    | 94,537    | 729,168    |



Total assets increase

**22.0%**

SAR in millions



Shareholders' equity increase

**16.7%**

SAR in millions

## Geographical analysis of gross revenue

Analysis of the gross revenue by region (SAR in millions)

|                               | Central      | Western    | Eastern    | Total        |
|-------------------------------|--------------|------------|------------|--------------|
| <b>Gross revenue for 2013</b> | <b>1,076</b> | <b>548</b> | <b>293</b> | <b>1,917</b> |

Essentially, all revenues of the Bank are from activities inside the Kingdom. The Bank does not have any branches or subsidiaries outside the Kingdom of Saudi Arabia.

## Subsidiaries

| Company name                | Date of establishment | Main activity  | Capital                  | Company head office             | Country of establishment | Ownership |
|-----------------------------|-----------------------|--|--------------------------|---------------------------------|--------------------------|-----------|
| Albilad Capital             | November 20, 2007     | Investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA | 200 million Saudi riyal  | Riyadh, Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  | 100%      |
| Albilad Real Estate Company | September 17, 2006    | Registration of the real estate collaterals that the Bank obtains from its customers   | 500 thousand Saudi riyal | Riyadh, Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  | 100%      |

## Future plans

The Board of Directors of the Bank approved a five years strategy for the Bank focusing on future direction, aggressive growth by the way of enhancement of product suite, customer service, efficient utilization of the infrastructure facilities, automation of the products and services, channelizing resources to more profitable products and business segments.

The Bank intends to follow an ambitious plan for development of its staff for enhanced leadership as well as core banking training and by introducing various new initiatives to attract and retain quality talent.

## Risk management

The Bank is exposed to various risks from its activities, which is an essential component of the nature of banking business. These risks are monitored and managed through the Bank's Risk Group, which represents financial risk management, credit, market and operational risk. The details for these risks are mentioned in notes 29 to 33 of the consolidated financial statements attached to Board of Directors report.



Accounting standards applicable

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (“SAMA”) and with International Financial Reporting Standards (“IFRS”). The Bank also prepares its consolidated financial statements to comply with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia. There is no material departure from accounting standards issued by SOCPA.

Corporate Governance by-laws in the Kingdom of Saudi Arabia

The Board of Directors approved a comprehensive set of Corporate Governance by-laws governed by the rules and conditions of the Bank’s Article of Association, the Saudi Companies Law, the CMA Regulations and executive by-laws, in addition to other regulations of relevance.

The Bank has implemented all the requirements of the corporate governance law except the following articles:

| Article                 | Description   | Reasons   |
|-------------------------|---|---|
| Article 6 paragraph (D) | Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments. | The Bank does not have the authority to enforce judicial persons to disclose voting policies in their annual reports. |
| Article 12 paragraph(I) | Judicial person who is entitled under the company’s Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.  | There is no representative or judicial persons in the board of directors.   |

## The Board of Directors

The Board of Directors consists of 11 members, who were elected in the General Assembly meeting held on 28/05/1434H, corresponding to April 9, 2013 for three years with effect from 07/06/1434H corresponding to April 17, 2013 until 09/07/1437H corresponding to April 16, 2016.

List of new members of the Board of Directors and expired members is as follows:

| Member                                 | Membership |
|--|------------|
| H.E. Musaed Mohammad AlSnani           | Expired    |
| Mr. Ibrahim Abdullah AlSubeai          | Expired    |
| Eng. Ali bin Othman Alzaid             | Expired    |
| Mr. Adib Abdullah Alzamil              | Expired    |
| Mr. Mohammed bin Abdullah ALQwaiz      | Expired    |
|  |            |
| Eng. Abdulmohsen bin Abdullatif Alissa | New        |
| Mr. Fahad bin Abdullah Bindekhayel     | New        |
| Eng. Ahmad bin Abdulaziz Alohal        | New        |
| Mr. Ahmed bin Abdulrhaman Alhossan     | New        |
| Mr. Khaled bin Abdullah Al-Subeai      | New        |

The former board meetings which ended on April 16, 2013 during the first quarter of 2013.

| Member                                   | Date       |            |
|--|------------|------------|
|  | 14/01/2013 | 12/03/2013 |
| H.E. Musaed Mohammad AlSnani             | √          | √          |
| Mr. Ibrahim Abdullah AlSubeai            | √          | √          |
| Dr. Ibrahim bin Abdulrahman Al-Barrak    | √          | √          |
| Dr. Abdulrahman bin Ibrahim Al-Humaid    | √          | √          |
| Eng. Ali bin Othman Alzaid               | √          | x          |
| Mr. Adib Abdullah Alzamil                | x          | √          |
| Mr. Abdulrhaman bin Mohammed Ramzi Addas | √          | √          |
| Mr. Nasser bin Mohammed Al-Subeai        | √          | √          |
| Mr. Khalid bin Abdulaziz Al-Mukairin     | √          | √          |
| Mr. Khalid bin Abdulrahman Al-Rajhi      | √          | √          |
| Mr. Mohammed bin Abdullah ALQwaiz        | √          | √          |



The current Board held five meetings during the year 2013 with the following attendance record of these meetings:

| Member                                   | Date       |            |            |               |            |
|--|------------|------------|------------|---------------|------------|
|  | 09/04/2013 | 22/04/2013 | 16/07/2013 | 11-12/09/2013 | 16/12/2013 |
| Dr. Abdulrahman bin Ibrahim Al-Humaid    | √          | √          | √          | √             | √          |
| Mr. Nasser bin Mohammed Al-Subeaei       | √          | √          | √          | √             | √          |
| Dr. Ibrahim bin Abdulrahman Al-Barrak    | √          | √          | √          | √             | √          |
| Mr. Abdulrhaman bin Mohammed Ramzi Addas | √          | √          | √          | √             | √          |
| Eng. Abdulmohsen bin Abdullatif Alissa   | √          | √          | √          | √             | X          |
| Mr. Fahad bin Abdullah Bindekhayel       | √          | √          | √          | √             | √          |
| Eng. Ahmad bin Abdulaziz Alohal          | X          | √          | √          | √             | √          |
| Mr. Khalid bin Abdulaziz Al-Mukairin     | √          | √          | √          | √             | √          |
| Mr. Ahmed bin Abdulrhaman Alhossan       | √          | √          | √          | √             | √          |
| Mr. Khalid bin Abdulrahman Al-Rajhi      | √          | √          | √          | √             | √          |
| Mr. Khaled bin Abdullah Al-Subeaei       | √          | √          | √          | √             | √          |

### Memberships in other Joint Stock Companies listed and others

| Member                                     | Company Name                                | Position                             | Type of Company              |
|--|---|--------------------------------------|------------------------------|
| 1<br>Dr. Abdulrahman bin Ibrahim Al-Humaid | Saudi Vittrified Clay Pipe                  | Member of Board of Directors         | Listed                       |
|  | Alrajhi Holding Co.                         | Member of Board of Directors         | Closed                       |
|  | Mohammed Ibrahim Alsubaie & Son Co. (Masic) | Member of Board of Directors         | Limited liabilities          |
|  | HNC Co.                                     | Chairman of the Board of Directors   | Limited liabilities          |
| 2<br>Mr. Nasser bin Mohammed Al-Subeaei    | Saudi Hotels & Resort Areas                 | Member of Board of Directors         | Listed                       |
|  |   | Chairman of the investment committee |                              |
|  | Alrjan projects Co.                         | Chairman of the Board of Directors   | Closed                       |
|  | Akwan Real Estate Co.                       | Member of Board of Directors         | Closed                       |
|  |   | Member of Executive Committee        |                              |
|  | Member of a group of companies              | Member of Board of Directors         | Closed & Limited liabilities |

| Member   | Company Name                                     | Position   | Type of Company   |
|--|--|--|---|
| 3<br>Mr.<br>Abdulrhaman<br>bin Mohammed<br>Ramzi Addas | Al Sorayai Trading And Industrial Group Company  | Member of Board & of the Audit Committee & of Nominations and Remuneration Committee | Listed  |
|  | Sedco Capital Co.                                | Member of Audit Committee & the Risk and Compliance Committee                        | Private   |
|  | Red Sea Markets Company Ltd.                     | Member of Board of Directors   | Private   |
|  | Quantum Investments Bank (Dubai)                 | Member of Board & Audit Committee & Chairman of the Risk and Compliance Committee    | Private   |
|  | Keppel growth Development Ltd.                   | Chairman of Board of Directors   | Mixed Share with Foreign investor   |
|  | Diar Alkhial Co, Ltd For real estate development | Chairman of Board of Directors   | Private   |
|  | Abdulaziz Al Suqhayer Holding Co.                | Member of Board of Directors   | Private   |
|  | Stusid Bank (Tunis)                              | Member of Board of Directors & Chairman of the Risk and Compliance Committee         | Government investment Owned by the Ministry of Finance Saudi Arabia and the Tunisian government |
|  | ARCOMA Group                                     | Member of Board of Directors   | Private   |
| 4<br>Eng.<br>Abdulmohsen<br>bin Abdullatif<br>Alissa   | Abdullatif Alissa Holding Group                  | Chairman of Board of Directors   | Closed  |
|  | Al Yusr installment Company                      | Chairman of Board of Directors   | Closed  |
|  | Siporex company                                  | Chairman of Board of Directors   | Limited liabilities   |
|  | Al-serpo Saudi company                           | Chairman of Board of Directors   | Limited liabilities   |
|  | Gulf Real Estate Company                         | Chairman of Board of Directors   | Closed  |
|  | Arab Papers Manufacturing Company                | Member of Board of Directors   | Listed  |
|  | United Electronics Company (Extra)               | Member of Board of Directors   | Listed  |
|  | Saudi Vitrified Clay Pipe Company                | Member of Board of Directors   | Closed  |
|  |  |  |   |

| Member | Company Name                         | Position  | Type of Company                     |                                     |
|--------|--------------------------------------|---|-------------------------------------|-------------------------------------|
| 5      | Mr. Fahad bin Abdullah Bindekhayel   | National Petroleum Services Company (NPS)               | Member of Board of Directors        | Limited liabilities                 |
|        |                                      | Al Wafa International Industries Limited                | Chairman of Board of Directors      | Limited liabilities                 |
|        |                                      | Al-Hekma Investment Group                               | Chairman of Board of Directors      | Limited liabilities                 |
| 6      | Eng. Ahmad bin Abdulaziz Alohali     | Saudi International Petrochemical Company (SIPCHEM)     | Member of Board of Directors        | Listed                              |
|        |                                      | International polymers company                          | Chairman of Board of Directors      | Mixed Share and Limited liabilities |
|        |                                      | Sipchem marketing company                               | Chairman of Board of Directors      | Limited liabilities                 |
|        |                                      | Aictra Swiss company                                    | Chairman of Board of Directors      | Limited liabilities - Sweden        |
|        |                                      | Sipchem chemicals                                       | Chairman of Board of Directors      | Limited liabilities                 |
|        |                                      | International Acetyl Company (IAC)                      | Member of the Board of Directors    | Mixed Share and Limited liabilities |
|        |                                      | International Methanol Company (IMC)                    | Member of Board of Directors        | Mixed Share and Limited liabilities |
|        |                                      | Saudi Indsor Steel company                              | Chairman of Board of Directors      | Mixed Share and Limited liabilities |
|        |                                      | Bischoff and Klein Middle East company                  | Member of Board of Directors        | Mixed Share and Limited liabilities |
| 7      | Mr. Khalid bin Abdulaziz Al-Mukairin | Albilad Capital   | Chairman of Board of Directors      | Limited liabilities                 |
|        |                                      | Riyadh Chamber of Commerce & Industry.                  | Vice Chairman of Board of Directors | Private                             |
|        |                                      | Al-Maktaba marketing company                            | Chairman of Board of Directors      | Closed                              |
|        |                                      | Family Investment Company                               | Chairman of Board of Directors      | Limited liabilities                 |
|        |                                      | Khalid bin Abdul Aziz AlMukairin & sons Holding company | Chairman of Board of Directors      | Limited liabilities                 |

| Member   | Company Name  | Position  | Type of Company        |
|--|---|---|------------------------|
| 8<br>Mr. Khalid bin<br>Abdulrahman<br>Al-Rajhi | Saudi Cement Co.                                      | Chairman of Board of Directors  | Listed                 |
|  | Saudi United Cooperative Insurance Co. (Walaa)        | Member of Board of Directors,<br>Executive Committee &<br>Chairman of the Investment<br>Committee | Listed                 |
|  | Takween Advanced Industries Co.                       | Member of Board of Directors  | Listed                 |
|  | Abdulrahman Saleh Al Rajhi &<br>Partners Co, Ltd.     | Chief Executive   | Limited<br>liabilities |
|  | Fhakrey & Alrajhi Hospital                            | Chairman of Board of Directors  | Limited<br>liabilities |
|  | Health Care Hospital (Pro Care)                       | Chairman of Board of Directors  | Limited<br>liabilities |
|  | Alslam School   | Chairman of Board of Directors  | Private                |
|  | Tamkeen for investment and real estate<br>development | Member of Board of Directors  | Limited<br>liabilities |
|  | Tanami Holding Company                                | Member of Board of Directors  | Limited<br>liabilities |

| Member                              | Company Name                                    | Position                     | Type of Company     |
|-------------------------------------|---|------------------------------|---------------------|
| 9 Mr. Khaled bin Abdullah Al-Subeai | ALSubaie Financial Investment Company           | Member of Board of Directors | Closed              |
|                                     | Company Sba'aa real estate investment           | Member of Board of Directors | Closed              |
|                                     | Subai'i company hotel                           | Member of Board of Directors | Closed              |
|                                     | Al-Jawad integrated company                     | Member of Board of Directors | Closed              |
|                                     | Arab company for constructing & jacks           | Member of Board of Directors | Closed              |
|                                     | Qafac company Trade Co. Ltd                     | Member of Board of Directors | Closed              |
|                                     | Renad company island construction and equipment | Member of Board of Directors | Closed              |
|                                     | Company Abdullah Bin Ibrahim Subaie Holding     | Member of Board of Directors | Limited liabilities |
|                                     | Abdullah Ibrahim Subaie & Sons Company          | Member of Board of Directors | Limited Partnership |
|                                     | Abdullah Ibrahim Subaie United                  | Member of Board of Directors | Limited liabilities |
|                                     | Abdullah Ibrahim Subaie real estate development | Member of Board of Directors | Limited liabilities |
|                                     | Abdullah Ibrahim Subaie trade                   | Member of Board of Directors | Limited liabilities |
|                                     | Al-jawad Comprehensive company                  | Member of Board of Directors | Limited liabilities |
|                                     | Al-jawad United company                         | Member of Board of Directors | Limited liabilities |
|                                     | Abdullah Ibrahim Subaie investment              | Member of Board of Directors | Limited liabilities |
|                                     | Al assas integrated company                     | Member of Board of Directors | Limited liabilities |
|                                     | Integrated training company                     | Member of Board of Directors | Limited liabilities |
|                                     | Al madina plant carpet campany                  | Member of Board of Directors | Limited liabilities |
|                                     | ALSubaie Industrial company                     | Member of Board of Directors | Limited liabilities |
|                                     | Abdullah Ibrahim Subaie hotel                   | Member of Board of Directors | Limited liabilities |
|                                     | Abdullah Ibrahim Subaie real estate             | Member of Board of Directors | Limited liabilities |

The Status of Board of Directors

| Member                                   | Position      | Status        |
|--|---------------|---------------|
| Dr. Abdulrahman bin Ibrahim Al-Humaid    | Chairman      | Independent   |
| Mr. Nasser bin Mohammed Al-Subeaei       | Vice chairman | Non-executive |
| Dr. Ibrahim bin Abdulrahman Al-Barrak    | Member        | Independent   |
| Mr. Abdulrhaman bin Mohammed Ramzi Addas | Member        | Independent   |
| Eng. Abdulmohsen bin Abdullatif Alissa   | Member        | Independent   |
| Mr. Fahad bin Abdullah Bindekhayel       | Member        | Independent   |
| Eng. Ahmad bin Abdulaziz Alohal          | Member        | Independent   |
| Mr. Khalid bin Abdulaziz Al-Mukairin     | Member        | Non-executive |
| Mr. Ahmed bin Abdulrhaman Alhossan       | Member        | Independent   |
| Mr. Khalid bin Abdulrahman Al-Rajhi      | Member        | Non-executive |
| Mr. Khaled bin Abdullah Al-Subeaei       | Member        | Non-executive |

Major shareholders

The major shareholders of the Bank with more than 5% shareholding are as follows:

| Shareholder Name                                    | Percentage (%) |
|---|----------------|
| 1 Mohammed Ibrahim Mohammed AlSubaie & Sons company | 18.55          |
| 2 Abdullah Ibrahim Mohammed AlSubaie                | 11.14          |
| 3 Abdulrahman Saleh Abdulaziz AlRajhi               | 7.04           |
| 4 Abdulrahman Abdulaziz Saleh AlRajhi               | 6.57           |
| 5 Khalid Abdulrahman Saleh AlRajhi                  | 6.39           |



## Shareholding of Board members, their wives and children

The shareholdings of Board members, their wives and children as at the end of December 2013 compared to December 2012 are as follows:

|    | Name  | December 2013 | December 2012 | Change     | Change in percentage % |
|----|---|---------------|---------------|------------|------------------------|
| 1  | Dr. Abdulrahman bin Ibrahim Al-Humaid               | 1,333         | 1,333         | -          | -                      |
| 2  | Mr. Nasser bin Mohammed Al-Subeaei and his family   | 1,368,775     | 1,198,820     | 169,955    | 14.2                   |
| 3  | Dr. Ibrahim bin Abdulrahman Al-Barrak               | 54,088        | 54,088        | -          | -                      |
| 4  | Mr. Abdulrhaman bin Mohammed Ramzi Addas            | 2,666         | 2,666         | -          | -                      |
| 5  | Eng. Abdulmohsen bin Abdullatif Alissa              | 1,333         | -             | 1,333      | 100                    |
| 6  | Mr. Fahad bin Abdullah Bindekhayel                  | 1,000         | -             | 1,000      | 100                    |
| 7  | Eng. Ahmad bin Abdulaziz Alohal                     | 4,000         | 4,000         | -          | -                      |
| 8  | Mr. Khalid bin Abdulaziz Al-Mukairin and his family | 606,454       | 559,123       | 47,331     | 8.5                    |
| 9  | Mr. Ahmed bin Abdulrhaman Alhossan                  | 6,666         | -             | 6,666      | 100                    |
| 10 | Mr. Khalid bin Abdulrahman Al-Rajhi                 | 25,561,251    | 15,393,139    | 10,168,112 | 66.1                   |
| 11 | Mr. Khaled bin Abdullah Al-Subeaei                  | 1,333         | 1,333         | -          | -                      |

## Shareholding of top executives, their spouses and children

The shareholdings of top executives, their wives and children as at the end of December 2013 compared to December 2012 are as follows:

|                               | Name                              | December 2013 | December 2012 | Change   | Change in percentage % |
|-------------------------------|-----------------------------------|---------------|---------------|----------|------------------------|
| 1                             | Mr. Khalid bin Suleiman Al-Jasser | 160           | 160           | -        | -                      |
| <b>Total number of shares</b> |                                   | <b>160</b>    | <b>160</b>    | <b>-</b> | <b>-</b>               |

- The number of shares in 2013 has increased due to issuance of bonus shares one share for every 3 shares.

## Remunerations and Allowances

The Bank pays remunerations and allowances to the Board Members and members of various Board Committees for attending the Board meetings as well as salaries, rewards and allowances to senior executives in accordance with their contracts. A breakdown of such remunerations is given hereunder:

| SAR' 000                                   | Members of Non-Executive Board | Seven Senior Executives including the Chief Executive and Chief Financial Officer |
|--|--------------------------------|---|
| Salaries and remunerations                 | -                              | 13,976  |
| Periodic and annual allowances and rewards | 5,266                          | 7,243   |
| <b>Total</b>                               | <b>5,266</b>                   | <b>21,219</b>   |

## Arrangements with Shareholders, Board Members or Senior Executives for waiver of salaries, remunerations or dividends

The Bank does not have any arrangements or agreements with any of its Shareholders, Board Members or Senior Executives of any salaries, bonuses, remunerations or dividends regarding waiver.

## Interest in shares with voting eligibility

There is no interest in a class of voting held by persons (other than board of directors, senior executives and their spouses and minor children) that have notified the Bank of their holdings.

## Bank's loan obligations, Debt, Convertible Debt, redeemable Debt, Optional rights

The Bank and its subsidiaries do not have any loan obligation, debt instrument or convertible debt instrument outstanding and has not issued any such instrument during the year 2013. The Bank has not redeemed, purchased or cancelled any debt instrument, convertible debt, redeemable debt, option, rights etc. during the year 2013.

## Board committees

The Board has formed a number of committees in the Bank with specific tasks and responsibilities for each. The membership of such committees includes members nominated from the Board members, members with special skills, in addition to external bodies with proven record in their specialties. A brief of the main committees is given below:

## Executive Committee

The responsibilities of this Committee includes the application of the Bank's policies, internal performance control, risk management and efficacy of managing the Bank's businesses. During the year 2013, 13 meetings of the Executive Committee were held.

The Executive Committee consists of the following six(6) members:

| Member name                              | Position |
|--|----------|
| Dr. Abdulrahman bin Ibrahim Al-Humaid    | Chairman |
| Mr. Nasser bin Mohammed Al-Subeai        | Member   |
| Mr. Khalid bin Abdulaziz Al-Mukairin     | Member   |
| Mr. Khalid bin Abdulrahman Al-Rajhi      | Member   |
| Mr. Abdulrhaman bin Mohammed Ramzi Addas | Member   |
| Mr. Khalid bin Suleiman Al-Jasser        | Member   |

## Audit Committee

The responsibilities of the Audit Committee include the supervision of the Internal Audit Division including reviewing and approving the internal audit plan, audit procedures and following-up on corrective actions that mitigate the risks reported by the Internal Audit Division. Moreover, the Audit Committee recommend the nomination of the external auditors fixing their remuneration. It reviews the external auditors work plan and supervises their activities. In addition, the committee review and discusses the comments of external auditors on the Bank's quarterly and annual financial statements and approves the same. Furthermore, the committee reviews the accounting policies adopted by the Bank and assesses the application of controls of the same. It also supervises the special projects, reviews management reports and the accuracy of procedures related to financial disclosures. The committee is also responsible for all other control actions as described in its approved charter. The Audit Committee is directly reporting to the Board of Directors. During the year 2013, 9 meetings were conducted by the Audit Committee.

The Audit Committee consists of five (5) members including two members from the Bank's Board of Directors, and three independent external members, as follows:

| Member name                        | Position           |
|------------------------------------|--------------------|
| Mr. Ahmed bin Abdulrhaman Alhossan | Chairman           |
| Dr. Ahmed Abdullah AlMogamis       | Independent Member |
| Mr. Yosuf Ahmed Al Burshaid        | Independent Member |
| Mr. Soliman Nasser AlHatlan        | Independent Member |
| Mr. Khalid Abdullah Al Subeaei     | Member             |

## Nominations and Remuneration Committee

The Committee is responsible for making recommendations to the Board for nomination for the Board membership, performing annual revisions of the requirements for suitable skills for the Board membership, and revising the Board structure. Its tasks also include submitting strengths and weaknesses of the Board and making recommendations for members, ensuring timeliness of holding ordinary meetings of the Board, and documenting its meetings and verifying with caution the independence status of the independent members. The Nominations and Remuneration Committee is also responsible for ensuring that there is no conflict of interests, setting up the reward and incentive policy for the Board and executive based on performance, and following up human resources related issues. During the year 2013, 7 meetings of the Nominations and Remuneration Committee were held.

The Nominations and Remuneration Committee consists of the following five members, four board members from the Banks' board of directors, and one independent external member.

| Member name                              | Position           |
|--|--------------------|
| Mr. Abdulrhaman bin Mohammed Ramzi Addas | Chairman           |
| Mr. Nasser bin Mohammed Al-Subeaei       | Member             |
| Mr. Khalid bin Abdulaziz Al-Mukairin     | Member             |
| Eng. Ahmad bin Abdulaziz Alohal          | Member             |
| Mr. Khalid Saleh AlHathal                | Independent member |

Risk and Compliance Committee

The Risk and Compliance Committee was established by the Board of Directors on 14th January 2013. The responsibility of the Committee is to ensure development of a comprehensive risk and compliance policies and procedures, and its approval from Board of Directors. The Committee responsibility also includes development of the Bank’s Risk Appetite policy, conducting regular review and assessment, of risk limits and review of inherent risks in all new product. It ensures compliance of all regulations issued by supervisory authorities austerities as well as to ensure proper internal control. During the year 2013, four meetings of the Risk and Compliance Committee were held.

The Risk and Compliance Committee consists of the following (7) members, two board members and five of the Bank’s employees:

| Member name                              | Position |
|--|----------|
| Mr. Abdulrhaman bin Mohammed Ramzi Addas | Chairman |
| Mr. Fahad bin Abdullah Bindekhayel       | Member   |
| Mr. Musaddiq Ijaz                        | Member   |
| Mr. Mohammed Abdullah Alyahya            | Member   |
| Mr. Mostafa A. Abdullatif                | Member   |
| Mr. Abdullah Mohammed Balharith          | Member   |
| Mr. Abdullah Mohammad Al-Arifi           | Member   |

The Internal Control System

An adequate and effective system of internal control is approved and monitored by Bank’s Board of Directors. They review all business strategies and all policies of the Bank. The management provides the Board of Directors received periodical risk reports to understand the major risks run by the bank and monitors the predefined acceptable levels of these risks. Management is responsible for the appropriate design and functioning of internal control system and sharing the responsibility for operating and maintaining the system with all bank employees.

Implementation process takes in to consideration internal control objectives and involves all functions and key players; i.e. Board of Directors, Audit Committee, Risk and Compliance Committee, senior management, risk management, internal audit and compliance functions.

The Bank has in place a code of conduct, clear authority matrix, and well-defined roles and responsibilities for all of its employees. Risk management and compliance functions identify, analyze and recommend risk mitigation measures. There is a fraud risk unit that performs regular fraud investigation. The Bank has a re-engineering function that applies a unified business process design with the required embedded control elements in place. Internal audit function conducts an ongoing and independent evaluation of internal control system and evaluates the communication deficiencies.

Shariah Commitment

Bank Albilad has since its inception committed itself to the application of the Islamic Shariah .The Bank has an approved Shariah Board Charter which grants the Shariah Board total independence from other Bank departments. Most prominent points of this Charter are as follows:

- 1.The Bank does not implement any product, contract, or agreement unless it has been submitted to, and approved by the Shariah Board.
2. Rulings of the Shariah Board are binding to the Bank.
3. The Shariah Board and Shariah Group contribute to the development of products with respect to their compliance with the Shariah rules.
4. The Shariah Board and Shariah Group contribute to disseminating awareness of the Islamic banking concepts within the Bank.

## Shariah Board

Shariah Board members consist of six scholars who are also specialized in the modern financial transactions. They are:

1. H.E. Shaikh Abdullah bin Sulaiman bin Manea, Head of the Shariah Board.
2. H.E. Shaikh Prof. Abdullah bin Muhammad Al-Mutlaq, Deputy.
3. Shaikh Prof. Abdullah bin Mousa Al-Ammar, member.
4. Shaikh Dr. Muhammad bin Saud Al-Osaimi, member.
5. Shaikh Dr. Abdulaziz bin Fawzan Al-Fawzan, member.
6. Shaikh Prof. Yusuf bin Abdullah Al-Shubaili, member.

## Preparatory Committee

One of the functions that emanate from the Shariah Board is the “Preparatory Committee”, consisting of four members from the members of the Shariah Board. The Preparatory Committee performs many tasks, including the following:

1. Studying the issues forwarded to the Board for initial perusal and verification prior to submission to the Board.
2. Studying the Shariah-related inquiries received from the Bank’s employees and customers for appropriate guidance.
3. Studying initiatives for new products and providing necessary guidance.

During the year 2013, the Shariah Board held 5 meetings, and the Preparatory Committee held 21 meetings.

## Department of the Shariah Board Secretariat

Department of the Shariah Board Secretariat compiles information on matters submitted to the Board and prepares the relevant research and studies. It is the link between the Shariah Board and the Bank departments. It disseminates awareness of the Islamic banking concept and receives inquiries from the Bank employees and customers concerning the applicable procedures of the Bank.

## Shariah Audit Department

The Shariah Audit Department verifies the Bank’s compliance with the rulings of the Shariah Board by conducting periodic field visits to the Bank’s departments.

The Department checks the products by taking random samples of documents and shares the results of the test with relevant departments, thereby ensuring that reasonable degree of conviction is present as regards the Bank’s commitment to Islamic banking. The Department also responds to customer inquiries and clarifies the mechanism implemented in the Bank’s products. It also works to resolve customer complaints and communicates with the relevant departments of the Bank to resolve the same.

Means of Communication with Shareholders

The Board adopts transparency as one of the Bank's main principles. Transparency, however, is one of the corporate governance fundamentals intended to ensure fair and equal treatment of all shareholders and define the Board's responsibility towards the Bank and shareholders in general. The Bank follows the standards and instructions of the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA) and the recommendations of the Basel Committee regarding corporate governance. It submits comprehensive information about its activities and businesses as part of the annual report and the brief initial financial statements announced in the local papers, on Tadawul web site, and on the Bank's web site: (www.bankalbilad.com) which contains additional information and features of the Bank. The Bank also pays considerable attention to inquiries received from its stakeholders and to answering such inquiries. Furthermore, it encourages its shareholders to attend the General Assembly meetings where the Bank's activities are discussed.

Due to Regulatory Authorities

|       | <i>(SAR in millions)</i> |      |
|-------|--------------------------|------|
|       | 2013                     | 2012 |
| Zakat | 19.5                     | 24.3 |
| GOSI  | 4.4                      | 3.7  |

Zakat – zakat assessment for the year 2013 will be given to DZIT in the first quarter of the year 2014 and the amount to be paid is SAR 19.5 million (2012: SAR 24.3 million) with zakat assessment.

Amount due to GOSI of SAR 4.4 million (2012: SAR 3.7 million) will be paid in January 2014.

Zakat

The Bank received Zakat assessments from the Department of Zakat and Income Tax (DZIT) in respect of prior years from 2006 to 2008. The assessment resulted in additional Zakat liability of SAR 62, SAR 60 and SAR 55 million for years 2006, 2007 and 2008 respectively and is primarily due to the disallowance of financing and other financial assets from the Zakat base of the Bank and disallowance of certain expenses.

The Bank has filed appeals against all the assessments' years. The DZIT upheld the assessment for the year 2006. The Bank has now filed an appeal against the decision with the Appeal Committee.

Furthermore, the Bank in consultation with its advisors has contested the assessment made by DZIT and, along with the Saudi banking industry, has raised this issue with SAMA for a satisfactory resolution. The Bank has accordingly not recognized the additional zakat liability as assessed by DZIT for the years 2006, 2007 and 2008 in the consolidated financial statements.

Zakat due from the shareholders for the year ended December 31, 2013 amounted to SAR 19.5 million (2012: SAR 24.3 million). Zakat will be paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

Zakat for the years 2009 to 2013 has been calculated by the same method in previous years.

As a result of issuance of bonus shares in 2013, the Bank deducted the Zakat from retained earnings up to the year 2011.



## Fines imposed on the Bank by the supervisory authorities

The Bank did not get any significant fines during the year 2013, and most of the fines imposed due to operational processes were resolved amicably.

The following table includes the fines imposed on the bank by supervisory authorities:

| Supervisory Authority                   | Number of fines | Total amount |
|---|-----------------|--------------|
| Saudi Arabian Monetary Agency           | 7               | 1,346,609    |
| Ministry of Municipal and Rural Affairs | 74              | 643,000      |

## Dividend Policy

After the deduction of all general expenses, other costs and provision of the required reserve for bad debts, investments losses and unexpected liabilities, the Bank distributes its net profit as per the recommendation of the Board of Directors and in accordance with the Banking supervision law and the guidance of the Saudi Arabian Monetary Agency, as follows:

1. Calculate the due Zakat amount on the shareholders which the Bank pays on behalf of the shareholders.
2. The Bank will transfer 10% (ten percent) of its net profit after deducting Zakat to the statutory reserve until this reserve equals the paid up capital.
3. Five percent (5%) of the paid up capital of the rest of the profit after the deduction of statutory reserve and Zakat will be allocated as dividend in accordance with the Board of Directors' recommendation and the approval of the general assembly meeting. If the rest of the profit is less than 5%, the shareholders do not have the right of dividend payment. The general assembly meeting does not have the right to propose a dividend

in excess of the amount recommended by the Board of Directors.

4. The usage of the remaining profit (1,2,3), if any, will be subject to Board of Directors' recommendation and approval from general assembly meeting.
  - With regard to point 2 of dividend policy, the Saudi Arabian Banking Control Law requires the bank to transfer 25% of its net profit to the statutory reserve as per the article 13 of the Saudi Arabian Banking Control Law.
  - With regards to point 3, the Board of Directors has not recommended any cash dividend distribution for the year 2013.

## Bank Credit Rating

Bank Albilad is in the process with one of the international rating agencies for rating of the Bank.

## Human Resources

The total number of the Bank's employees as at the end of 2013 was 2,958 (two thousand nine hundred and fifty eight) employees compared to 2,540 (two thousand five hundred and forty) employees at the end of 2012. The Saudization percentage at the end of 2013 was 77%. The Bank recruits employees on the basis of high competence and banking experience and follows ethical and professional standards as referred in Bank's employee code of conduct. It has organized and implemented specialized training courses for newly-recruited university and administrative institute graduates, in addition to developmental courses offered to all employees. During the year, 1,971 staff members of the Bank underwent various trainings.

## End of Service Benefits

Benefits payable to employees of the banks at the end of their service are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and included in other liabilities in the consolidated statement of financial position.

## Employees Share Plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stock options at a predetermined strike price to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the options are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of consolidated income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued thereon.

Significant features of the share based payment plan are as follows:

|   | 2013                           | 2012                           |
|---|--------------------------------|--------------------------------|
| Grant date                                      | 4 September 2013               | 12 May 2012                    |
| Maturity date                                   | 1 January 2016                 | 1 January 2015                 |
| Number of shares offered on the grant date      | 251,300                        | 426,187                        |
| Share price on the grant date (SAR)             | 31.80                          | 28.20                          |
| Value of shares offered on grant date (SAR'000) | 7,991                          | 9,013                          |
| Vesting period                                  | 3 years                        | 3 years                        |
| Vesting condition                               | Employees to remain in service | Employees to remain in service |
| Method of settlement                            | Equity                         | Equity                         |

|   |         |         |
|---|---------|---------|
| The movement in the number of shares is as follows: | 2013    | 2012    |
| Beginning of the year                               | 583,407 | 212,020 |
| Granted during the year                             | 251,300 | 426,187 |
| Forfeited   | 53,070  | 54,800  |
| Exercised   | -       | -       |
| End of the year                                     | 781,637 | 583,407 |

The shares are granted only under a service condition with no market condition associated with them.

## Material contracts

Except for what is mentioned below about the contracts with Related Parties, no material contracts were executed by the Bank during the year in which any of its directors, Chief Executive Officer, or the Chief Financial Officer, or any associate had any interest.

## Contracts with Related Parties

The Bank, within the ordinary course of its business, deals with related parties. Such dealings are subject to the regulations provided for in the Banking Control Regulations and instruction of SAMA. The Bank has not entered into contracts that had or implied any personal benefits for anyone of the Board Members, the Chairman, the Chief Executive Officer, or the Chief Financial Officer, nor with anyone of their relatives.

a. Directors, and other major shareholders and their affiliates balances:

|                               | 2013      | 2012      |
|-------------------------------|-----------|-----------|
|                               | SAR'000   | SAR'000   |
| Bei ajel                      | 1,455,432 | 1,399,819 |
| Musharaka                     | 17,529    | 74,759    |
| Commitments and contingencies | 12,334    | 34,826    |
| Current accounts              | 43,508    | 23,598    |
| Al Bilad account              | 9,320     | 651       |

Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital.

b. Bank's Mutual funds

These are the outstanding balances with Banks mutual funds as of December 31:

|                   | 2013    | 2012    |
|-------------------|---------|---------|
|                   | SAR'000 | SAR'000 |
| Customer deposits | 13,529  | 7,286   |

## Related party income and expense

The following is an analysis of the related party income and expenses included in the consolidated income statement for the years ended December 31:

|   | 2013    | 2012    |
|---|---------|---------|
|   | SAR'000 | SAR'000 |
| Income from financing   | 44,110  | 48,936  |
| Income from commitments and contingencies   | 148     | 197     |
| Management fees (Albilad mutual funds)  | 14,758  | 13,082  |
| Rent  | 5,675   | 4,380   |
| Board of Directors' remunerations   | 5,266   | 3,729   |
| Compensations ,remuneration and bonuses and end of service benefits to executive management members | 52,101  | 41,963  |

Executive management members are those who have the authority and responsibility, directly or indirectly, to plan, steer and control the Bank's activities.

## External Auditors

In the General Assembly meeting held on 28 Jumada Al-awwal 1434, corresponding to April 9, 2013, Messrs Aba Alkhair Deloitte and Ernst & Young Office were appointed as External Auditors of the Bank until the end of the first quarter on March 31, 2014.

## Responsibilities of the Board Members towards the Financial Statements

The authorities and responsibilities of the Board members are two fold; legal and contractual, which are governed by the Companies Law, the Bank's Charter, and the Corporate Governance By-laws. In addition, the Banking Control Regulations specify the direct relation of the board members with the Bank, their conduct and their responsibilities towards the Bank's commitment to adherence of the requirements of the regulations. The Board of Directors reaffirms the following points to the shareholders and related parties:

- The accounting records have been prepared accurately.
- The system of internal control is sound in design and has been effectively implemented.
- There is no doubt about the Bank's ability to carry on with its activities.
- The Bank's external auditors have provided a clean audit opinion on the consolidated financial statements for current year.

Finally, the Board of Directors takes this opportunity to express there sincere thanks to The Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz and HRH Crown Prince Salman bin Abdulaziz Minister of Defense for their continued support and encouragement of the banking sector in the Kingdom. Thanks are also extended to the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, and the Capital Market Authority for their continued support and encouragement.

The Board of Directors would like also to thank shareholders, customers and employees for their relentless efforts aimed at improving and developing the Bank's performance towards achieving its objectives.

# Consolidated Financial Statements



# Consolidated Statement Of Financial Position

As At December 31

|  | Notes    | 2013<br>SAR' 000  | 2012<br>SAR' 000  |
|--|----------|-------------------|-------------------|
| <b>ASSETS</b>  |          |                   |                   |
| Cash and balances with SAMA                          | 4        | 4,186,998         | 2,932,369         |
| Due from banks and other financial institutions, net | 5        | 6,155,497         | 6,575,466         |
| Investments, net                                     | 6        | 1,667,069         | 1,537,260         |
| Financing, net                                       | 7        | 23,415,423        | 18,255,676        |
| Property and equipment, net                          | 8        | 762,204           | 336,225           |
| Other assets   | 9        | 136,117           | 140,505           |
| <b>Total assets</b>                                  |          | <b>36,323,308</b> | <b>29,777,501</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |          |                   |                   |
| <b>Liabilities</b>                                   |          |                   |                   |
| Due to banks and other financial institutions        | 10       | 975,616           | 570,830           |
| Customers' deposits                                  | 11       | 29,107,718        | 23,741,624        |
| Other liabilities                                    | 12       | 1,139,085         | 1,094,231         |
| <b>Total liabilities</b>                             |          | <b>31,222,419</b> | <b>25,406,685</b> |
| <b>Shareholders' equity</b>                          |          |                   |                   |
| Share capital  | 13       | 4,000,000         | 3,000,000         |
| Statutory reserve                                    | 14       | 552,396           | 370,104           |
| Other reserves                                       | 6 (a)&16 | 43,338            | 15,066            |
| Retained earnings                                    |          | 547,535           | 1,022,811         |
| Employee share plan                                  | 38       | (42,380)          | (37,165)          |
| <b>Total shareholders' equity</b>                    |          | <b>5,100,889</b>  | <b>4,370,816</b>  |
| <b>Total liabilities and shareholders' equity</b>    |          | <b>36,323,308</b> | <b>29,777,501</b> |

*The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.*

# Consolidated Statement Of Income

For The Years Ended December 31

|  | Notes     | 2013<br>SAR' 000 | 2012<br>SAR' 000 |
|--|-----------|------------------|------------------|
| <b>INCOME:</b>   |           |                  |                  |
| Income from investing and financing assets                 | 18        | 974,650          | 860,553          |
| Return on deposits and financial liabilities               | 19        | (28,028)         | (21,039)         |
| <b>Net income from investing and financing assets</b>      |           | <b>946,622</b>   | <b>839,514</b>   |
|  |           |                  |                  |
| Fee and commission income, net                             | 20        | 665,715          | 645,300          |
| Exchange income, net                                       |           | 245,364          | 234,004          |
| Dividend income  | 21        | 13,522           | 11,717           |
| Gains on non-trading investments, net                      | 22        | 21,904           | 5,225            |
| Other operating income                                     | 23        | 24,101           | 1,620            |
| <b>Total operating income</b>                              |           | <b>1,917,228</b> | <b>1,737,380</b> |
|  |           |                  |                  |
| <b>EXPENSES:</b>   |           |                  |                  |
| Salaries and employee related benefits                     | 24        | 582,247          | 517,357          |
| Rent and premises related expenses                         |           | 176,860          | 133,983          |
| Depreciation and amortization                              | 8         | 88,524           | 88,020           |
| Other general and administrative expenses                  |           | 170,482          | 154,163          |
| Impairment charge for financing, net                       | 7(a)      | 175,287          | 275,220          |
| Reversal of impairment charge on other financial assets    | 5(b)      | (5,340)          | -                |
| <b>Total operating expenses</b>                            |           | <b>1,188,060</b> | <b>1,168,743</b> |
| <b>Net operating income for the year</b>                   |           | <b>729,168</b>   | <b>568,637</b>   |
| Non-operating income                                       | 25        | -                | 373,167          |
| <b>Net income for the year</b>                             |           | <b>729,168</b>   | <b>941,804</b>   |
| <b>Basic and diluted earnings per share (Saudi Riyals)</b> | <b>26</b> | <b>1.82</b>      | <b>2.35</b>      |

*The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.*

# Consolidated Statement Of Comprehensive Income

For The Years Ended  
December 31

|   | Note | 2013<br>SAR'000 | 2012<br>SAR'000 |
|---|------|-----------------|-----------------|
| <b>Net income for the year</b>  |      | <b>729,168</b>  | <b>941,804</b>  |
| <b>Other comprehensive income:</b>  |      |                 |                 |
| That can be recycled back to consolidated statement of income in the future |      |                 |                 |
| - Available for sale financial assets                                       | 6(a) |                 |                 |
| Net changes in fair value   |      | <b>50,176</b>   | 14,055          |
| Net amount transferred to consolidated statement of income                  |      | <b>(21,904)</b> | (5,225)         |
| <b>Total comprehensive income for the year</b>                              |      | <b>757,440</b>  | <b>950,634</b>  |

*The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.*

# Consolidated Statement Of Changes In Shareholders' Equity

For The Years Ended December 31

| 2013<br>SAR' 000   | Notes     | Share capital    | Statutory<br>reserve | Other<br>reserves | Retained<br>earnings | Employee<br>share plan | Total            |
|--|-----------|------------------|----------------------|-------------------|----------------------|------------------------|------------------|
| <b>Balance at the beginning of the year</b>                |           | <b>3,000,000</b> | <b>370,104</b>       | <b>15,066</b>     | <b>1,022,811</b>     | <b>(37,165)</b>        | <b>4,370,816</b> |
| Changes in the equity for the year                         |           |                  |                      |                   |                      |                        |                  |
| Net changes in fair value                                  |           |                  |                      | <b>50,176</b>     |                      |                        | <b>50,176</b>    |
| Net amount transferred to consolidated statement of income |           |                  |                      | <b>(21,904)</b>   |                      |                        | <b>(21,904)</b>  |
| Net income recognized directly in shareholders' equity     |           |                  |                      | <b>28,272</b>     |                      |                        | <b>28,272</b>    |
| Net income for the year                                    |           |                  |                      |                   | <b>729,168</b>       |                        | <b>729,168</b>   |
| <b>Total comprehensive income for the year</b>             |           |                  |                      | <b>28,272</b>     | <b>729,168</b>       | <b>-</b>               | <b>757,440</b>   |
| Employee share plan reserve                                | <b>38</b> |                  |                      |                   |                      | <b>(5,215)</b>         | <b>(5,215)</b>   |
| Issuance of bonus shares                                   | <b>15</b> | <b>1,000,000</b> |                      |                   | <b>(1,000,000)</b>   |                        | <b>-</b>         |
| Zakat adjustment   |           |                  |                      |                   | <b>(22,152)</b>      |                        | <b>(22,152)</b>  |
| Transfer to statutory reserve                              | <b>14</b> |                  | <b>182,292</b>       |                   | <b>(182,292)</b>     |                        | <b>-</b>         |
| <b>Balance at end of the year</b>                          |           | <b>4,000,000</b> | <b>552,396</b>       | <b>43,338</b>     | <b>547,535</b>       | <b>(42,380)</b>        | <b>5,100,889</b> |

| 2012<br>SAR' 000   | Notes     | Share capital    | Statutory<br>reserve | Other<br>reserves | Retained<br>earnings | Employee<br>share plan | Total            |
|--|-----------|------------------|----------------------|-------------------|----------------------|------------------------|------------------|
| <b>Balance at the beginning of the year</b>                |           | <b>3,000,000</b> | <b>134,653</b>       | <b>6,236</b>      | <b>316,458</b>       | <b>(41,097)</b>        | <b>3,416,250</b> |
| Changes in the equity for the year                         |           |                  |                      |                   |                      |                        |                  |
| Net changes in fair value                                  |           |                  |                      | <b>14,055</b>     |                      |                        | <b>14,055</b>    |
| Net amount transferred to consolidated statement of income |           |                  |                      | <b>(5,225)</b>    |                      |                        | <b>(5,225)</b>   |
| Net income recognized directly in shareholders' equity     |           |                  |                      | <b>8,830</b>      |                      |                        | <b>8,830</b>     |
| Net income for the year                                    |           |                  |                      |                   | <b>941,804</b>       |                        | <b>941,804</b>   |
| <b>Total comprehensive income for the year</b>             |           |                  |                      | <b>8,830</b>      | <b>941,804</b>       |                        | <b>950,634</b>   |
| Employee share plan reserve                                | <b>38</b> |                  |                      |                   |                      | <b>3,932</b>           | <b>3,932</b>     |
| Transfer to statutory reserve                              | <b>14</b> |                  | <b>235,451</b>       |                   | <b>(235,451)</b>     |                        | <b>-</b>         |
| <b>Balance at end of the year</b>                          |           | <b>3,000,000</b> | <b>370,104</b>       | <b>15,066</b>     | <b>1,022,811</b>     | <b>(37,165)</b>        | <b>4,370,816</b> |

*The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.*

# Consolidated Statement Of Cash Flows

For The Years Ended December 31

|  | Note | 2013<br>SAR'000  | 2012<br>SAR'000    |
|--|------|------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>  |      |                  |                    |
| <b>Net income for the year</b>   |      | <b>729,168</b>   | 941,804            |
| Adjustments to reconcile net income to net cash from / (used in) operating activities: |      |                  |                    |
| Gains on non-trading investments, net  |      | (21,904)         | (5,225)            |
| Gains from disposal of property and equipment, net                                     |      | (4,452)          | (1,356)            |
| Depreciation and amortization  |      | 88,524           | 88,020             |
| Impairment charge for financing, net   |      | 175,287          | 275,220            |
| Reversal of impairment charge on other financial assets                                |      | (5,340)          | -                  |
| Non-operating income   |      | -                | (373,167)          |
| Employee share plan  |      | 7,075            | 3,932              |
| <b>Operating profit before changes in operating assets and liabilities</b>             |      | <b>968,358</b>   | <b>929,228</b>     |
| <b>Net (increase) / decrease in operating assets:</b>                                  |      |                  |                    |
| Statutory deposit with SAMA  |      | (232,448)        | (363,461)          |
| Due from banks and other financial institutions  |      |                  |                    |
| Maturing after ninety days from the date of acquisition                                |      | 1,056,496        | (786,469)          |
| Investments  |      | 48,380           | (500,168)          |
| Financing  |      | (5,335,034)      | (4,248,108)        |
| Other assets   |      | (17,764)         | (41,919)           |
| Net increase/ (decrease) in operating liabilities:                                     |      |                  |                    |
| Due to banks and other financial institutions  |      | 404,786          | 148,993            |
| Customers' deposits  |      | 5,366,094        | 703,690            |
| Other liabilities  |      | 44,854           | 243,083            |
| <b>Net cash from (used in) operating activities</b>                                    |      | <b>2,303,722</b> | <b>(3,915,131)</b> |
| <b>INVESTING ACTIVITIES</b>  |      |                  |                    |
| Purchase of non-trading investments  |      | (468,774)        | (264,751)          |
| Proceeds from sales of non-trading investments   |      | 340,761          | 193,172            |
| Purchase of property and equipment   |      | (523,015)        | (96,446)           |
| Proceeds from sale of property and equipment   |      | 12,964           | 1,993              |
| Proceeds from sale of land   |      | -                | 150,000            |
| <b>Net cash used in investing activities</b>   |      | <b>(638,064)</b> | <b>(16,032)</b>    |

# Consolidated Statement Of Cash Flows

For The Years Ended December 31

|  | Note | 2013<br>SAR'000  | 2012<br>SAR'000    |
|--|------|------------------|--------------------|
| <b>FINANCING ACTIVITIES</b>  |      |                  |                    |
| Purchase of shares for employee share plan   |      | (12,290)         | -                  |
| <b>Net cash (used in) from financing activities</b>  |      | <b>(12,290)</b>  | <b>-</b>           |
| <b>Increase (decrease) in cash and cash equivalents</b>  |      | <b>1,653,368</b> | <b>(3,931,163)</b> |
| <b>Cash and cash equivalents at beginning of the year</b>  |      | <b>5,076,661</b> | <b>9,007,824</b>   |
| <b>Cash and cash equivalents at end of the year</b>  | 27   | <b>6,730,029</b> | <b>5,076,661</b>   |
| Income received from investing and financing assets  |      | 987,493          | 586,299            |
| Return paid on deposits and financial liabilities  |      | 36,837           | 13,977             |
| <b>Supplemental non cash information</b>   |      |                  |                    |
| Net changes in fair value reserve and net amount transferred to consolidated statement of income |      | 28,272           | 8,830              |
| Financing provided towards sale of land  |      | -                | 503,042            |
| Issuance of bonus shares   |      | 1,000,000        | -                  |
| Zakat adjustment   |      | 22,152           | -                  |

*The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.*





# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2013

## 1- GENERAL

### a .Incorporation and operation

Bank Albilad (the “Bank”), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers’ resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004).

The Bank operates under Commercial Registration No. 1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

**Bank Albilad**  
**P.O. Box 140**  
**Riyadh 11411**  
**Kingdom of Saudi Arabia**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, ‘Albilad Capital and ‘Albilad Real Estate Company’ (collectively referred to as “the Group”). The subsidiaries are 100% owned by the Bank and are incorporated in the Kingdom of Saudi Arabia.

The Group’s objective is to provide a full range of banking services, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the Articles of Association, and the Banking Control Law. The Bank provides these services through 102 banking branches (2012: 88) and 151 exchange and remittance centers (2012: 144) in the Kingdom of Saudi Arabia.

### b .Shariah Authority

The Bank has established a Shariah Authority (“the Authority”). It ascertains that all the Bank’s activities are subject to its approvals and control.

## 2- BASIS OF PREPARATION

### a .Statement of compliance

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (“SAMA”) and with International Financial Reporting Standards (“IFRS”). The Bank, in preparation of its consolidated financial statements, complies with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia and the bank Article of association.

### b .Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held at Fair Value through Income Statement (FVIS) and available-for-sale financial assets.

### c .Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group’s functional currency. The financial information presented in SAR has been rounded to the nearest thousand except otherwise indicated.

### d .Critical accounting judgments and estimates

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgment estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management uses estimates, assumptions or exercised judgments are as follows:

## I. Impairment for losses on financing assets

The Bank reviews its financing portfolio to assess specific and collective impairment on a regular basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Group.

Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## II. Fair value of financial instruments

The Group measures financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 3g.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1:** quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- **Level 2:** valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- **Level 3:** valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

## III. Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

## IV. Impairment of available-for-sale investments

The Bank exercises judgment to consider impairment on the available-for-sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in the investment price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

## V. Determination of control over investees

The control indicators set out note 3 (b) are subject to management's judgements that can have a significant effect in the case of the Group's interests in securitisation vehicles and investments funds.

## Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

## 3- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Except for the change in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

### a. Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those of the prior year except for new standards and amendments to the existing standards, as mentioned below, which the bank has adopted:

#### I. New Standards

- **IFRS 10 Consolidated financial statements:** IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').
- **IFRS 12 Disclosure of Interests in Other Entities:** Requires the extensive disclosure of information that enables users of the financial statements to evaluate the nature of,

and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- **IFRS 13 Fair value measurements:** Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

#### II. Amendments to existing standards

- **Amendments to IAS 1 Presentation of financial statements:** amends IAS 1 to revise the way other comprehensive income is presented.
- **Amendments to IFRS 7 Financial Instruments:** Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.
- **IAS 19 Employee Benefits – Amendments:** The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognized in consolidated statements of income and other comprehensive income.
- **IAS 27 Separate Financial Statements (2011):** now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.
- **The IASB has published Annual Improvements to IFRSs:** 2009 - 2011 cycle of improvements that contain amendments to the following standards with consequential



amendments to other standards:

- IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;
- IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening consolidated statements of financial position and related notes;
- IAS 16 – Property, plant and equipment: Classification of servicing equipment;
- IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

The adoption of these amendments has no impact on the consolidated financial position or financial performance of the Group.

## b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are all entities over which the Bank has the power directly or indirectly to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Albilad Capital and Albilad Real Estate Company are 100% owned by the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## c. Trade date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Bank commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial asset and liabilities (including assets and liabilities designated at fair value through consolidated statement of income are initially recognized on trade date at which the Group become a party to the contractual provisions of the instrument.

## d. Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals ('SAR') at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

## e. Offsetting financial instrument

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.



## f. Due from banks and other financial institution

Due from banks and other financial institution are initially measured at fair value and subsequently measured at amortized cost.

## g. Investments

The Bank classifies its investments as follows:

Following initial recognition, subsequent transfers between the various classes of investments and financing are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis set out in the following paragraphs.

### Available for sale (AFS) investments

AFS investments are non-derivative financial instruments that are either designated as AFS or not classified as (a) Financing, (b) held-to-maturity investments or (c) financial assets at Fair Value through Income Statement.

Available for sale investments are initially recognized at fair value including acquisition charges associated with the investments and are subsequently measured at fair value.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid price at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, or where this is not possible / feasible, a degree of judgment is required in establishing fair values.

## Held to maturity investments

Held to maturity investments are not-derivatives financial assets with fixed and determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold.

Held to maturity investments are initially recognised at fair value including acquisition charges associated with the investments and are subsequently measured at amortized cost less any amount written off and the provision for impairment.

## h. Financing

Financing comprising of Bei-ajel, Installment Sales, Musharakah, and Ijarah originated by the Bank, are initially recognized at fair value including acquisition costs and is subsequently measured at cost less any amounts written off, and provision for impairment, if any. Financing is recognised when cash is advanced to borrowers, and are derecognized when either customer repays their obligations, or the financing are sold or written off, or substantially all the risks and rewards of ownership are transferred.

– **Bei-ajel and installments:** These financing contracts are based on Murabaha whereby the Bank sells to customers a commodity or an asset which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Bei ajel is used for corporate customers whereas installment sales are used for retail customers.

– **Ijarah:** is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijarah could end by transferring the ownership of the leased asset to the lessee.

– **Musharakah:** is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

## i. Impairment of financial assets

### Financial assets carried at amortized cost

An assessment is made at the reporting date of each consolidated statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired at each reporting date. If such evidence exists, the difference between the asset's carrying amount and the present value of estimated future cash flows is calculated and any impairment loss is recognized for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of a provision account, and the amount of the adjustment is included in the consolidated statement of income.

Specific provisions are evaluated individually. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- **delinquency in contractual payments of principal or profit;**
- **cash flow difficulties experienced by the customer;**
- **breach of repayment covenants or conditions;**
- **initiation of bankruptcy proceedings against the customer;**
- **deterioration of the customer's competitive position; and**
- **deterioration in the value of collateral.**

When financing amount is uncollectible, it is written-off against the related provision for impairment. Such financing is written-off after all necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the customer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is adjusted in the consolidated statement of income in impairment charge. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a portfolio basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the counter-parties as well as their credit ratings, taking into account the current economic climate.

### Available for sale equity investments

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income.

## j. Revenue recognition

### I. Income and return on financing assets and liabilities

Income from investing and financing assets is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

### II. Fees and commission income

Fees and commission income that are integral to the effective yield are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability is recognized when the related service provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.
- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.
- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service, are received.

### III. Exchange income/ (loss)

Exchange income/(loss) is recognised as discussed in foreign currencies policy above.

### IV. Dividend income

Dividend income from investment in equities is recognized when the right to receive the dividend is established.

### V. Gain/ (loss) from non-trading investments

Unrealized gain/ loss for a change in fair value is recognized in “other reserves” under equity. On de-recognition gain/ loss previously recognized in equity is included in the consolidated statement of income.

### k. Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expire.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately, as assets or liabilities, any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expire.

### I. Zakat and Withholding Tax

Under Saudi Arabian Zakat and Income Tax Regulations, Zakat is the liability of the Saudi shareholders. Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat Regulations.

Zakat is not charged to the Bank’s consolidated statement of income as it is deducted from the dividends paid to the Saudi shareholders.

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the Department of Zakat & Income Tax on a monthly basis.

### m. Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in “impairment charge for financing, net”. The premium received is recognised in the consolidated statement of income in “Fees and commission income, net” on a straight line basis over the life of the guarantee.

## n. Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation arising as a result of past events and it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

## o. Accounting for leases

### I. Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

### II. Where the Bank is the lessor

When assets are transferred under Ijara Muntahia Bittamleek the present value of the lease payments is recognised as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

## p. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with maturities of three months or less from the date of acquisition.

## q. Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation, amortization and impairment, if any. The cost of property and equipment and other fixed assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets, as follows:

|                                |  |
|--------------------------------|--|
| Building                       | 33 years   |
| Leasehold improvements         | 10 years or the lease period, whichever is shorter |
| Equipment and furniture        | 4 to 6 years                                       |
| Computer hardware and software | 5 years  |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## r. Financial liabilities

All customer deposits, due to banks and other financial institution and other financial liabilities are initially recognized at fair value and subsequently are measured at amortized cost.

### s. Investment services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in the available-for-sale investment and fee income earned from managing these funds is disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly, are not included in the Bank's consolidated financial statements.

### t. Income excluded from the consolidated statement of income

The Shariah Authority of the Bank conducts from time to time Shariah reviews to ensure compliance of its Shariah decisions. In cases where revenues have been wrongly or inadvertently recognized, the Board of Directors of the Bank shall, at the request of the Chief Executive Officer (CEO), authorize the exclusion of such revenues from the Group income for its final disposal.

### u. Employee share plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stock options at a predetermined strike price to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the options are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

### v. End of service benefits

Benefits payable to employees of the banks at the end of their service are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and included in other liabilities in the consolidated statement of financial position.

## 4- CASH AND BALANCES WITH SAMA

Cash and balances with SAMA as at December 31 comprise of the following:

|                   | Notes | 2013<br>SAR' 000 | 2012<br>SAR' 000 |
|-------------------|-------|------------------|------------------|
| Cash in hand      |       | 1,609,797        | 1,153,106        |
| Statutory deposit | 4.1   | 1,776,717        | 1,544,269        |
| Other balances    | 4.2   | 800,484          | 234,994          |
| <b>Total</b>      |       | <b>4,186,998</b> | <b>2,932,369</b> |

4.1 In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, saving, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day to day operations and therefore is not part of cash and cash equivalents.

4.2 This includes cash management account with SAMA of SAR 620 million (2012: SAR 90 million).

## 5- DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

a. Due from banks and other financial institutions, net as at December 31, comprise the following:

|  | 2013             | 2012             |
|--|------------------|------------------|
|  | SAR' 000         | SAR' 000         |
| Current accounts                               | 266,204          | 401,961          |
| Commodity murabaha placements                  | 5,980,216        | 6,269,768        |
| Provision for impairment on commodity murabaha | (90,923)         | (96,263)         |
|  | 5,889,293        | 6,173,505        |
| <b>Total</b>                                   | <b>6,155,497</b> | <b>6,575,466</b> |

b. Movement of allowance for impairment are summarized as follows:

|                                      | 2013          | 2012          |
|--------------------------------------|---------------|---------------|
|                                      | SAR' 000      | SAR' 000      |
| Balance at the beginning of the year | 96,263        | 96,263        |
| Recovery during the year             | (5,340)       | -             |
| <b>Balance at end of the year</b>    | <b>90,923</b> | <b>96,263</b> |



## 6- INVESTMENTS, NET

Investments in domestic market as at December 31 comprise the following:

| SAR' 000                         | 2013    |           |           |
|----------------------------------|---------|-----------|-----------|
|                                  | Quoted  | Unquoted  | Total     |
| Available-for-sale investments   |         |           |           |
| Equities                         | 178,689 | 150,000   | 328,689   |
| Mutual fund                      | 28,221  | -         | 28,221    |
| Floating-rate securities - sukuk | 258,000 | -         | 258,000   |
|                                  | 464,910 | 150,000   | 614,910   |
| Held at amortized cost           |         |           |           |
| Commodity murabaha with SAMA     | -       | 1,052,159 | 1,052,159 |
| Total                            | 464,910 | 1,202,159 | 1,667,069 |

| SAR' 000                         | 2012    |           |           |
|----------------------------------|---------|-----------|-----------|
|                                  | Quoted  | Unquoted  | Total     |
| Available-for-sale investments   |         |           |           |
| Equities                         | 138,137 | 150,000   | 288,137   |
| Mutual fund                      | 90,584  | -         | 90,584    |
| Floating-rate securities - sukuk | 58,000  | -         | 58,000    |
|                                  | 286,721 | 150,000   | 436,721   |
| Held at amortized cost           |         |           |           |
| Commodity murabaha with SAMA     | -       | 1,100,539 | 1,100,539 |
|                                  | 286,721 | 1,250,539 | 1,537,260 |

a . Movement in other reserves is as follows:

|  | 2013          | 2012          |
|--|---------------|---------------|
|  | SAR'000       | SAR'000       |
| Balance at the beginning of the year                       | 15,066        | 6,236         |
| Net changes in fair value                                  | 50,176        | 14,055        |
| Net amount transferred to consolidated statement of income | (21,904)      | (5,225)       |
| <b>Balance at end of the year</b>                          | <b>43,338</b> | <b>15,066</b> |

## b. The analysis of investments by counter-party is as follows

|  | 2013             | 2012             |
|--|------------------|------------------|
|  | SAR'000          | SAR'000          |
| Corporate                              | 565,543          | 327,308          |
| Banks and other financial institutions | 49,367           | 109,413          |
| SAMA                                   | 1,052,159        | 1,100,539        |
| <b>Total</b>                           | <b>1,667,069</b> | <b>1,537,260</b> |

c. Equities reported under available-for-sale investments in the stock market include unquoted shares for SAR 150 million (2012: SAR 150) that are carried at cost.

## 7- FINANCING, NET

Financing as at December 31, comprise the following:

|                                 | 2013              |                   |                  |                |                   |
|---------------------------------|-------------------|-------------------|------------------|----------------|-------------------|
| SAR'000                         | Bei ajel          | Installment sales | Musharakah       | Ijarah         | Total             |
| Performing                      | 12,306,085        | 9,486,885         | 1,530,608        | 526,288        | 23,849,866        |
| Non-performing                  | 244,258           | 122,945           | 93,665           | -              | 460,868           |
| Total                           | 12,550,343        | 9,609,830         | 1,624,273        | 526,288        | 24,310,734        |
| Allowance for impairment charge | (598,813)         | (148,241)         | (133,083)        | (15,174)       | (895,311)         |
| <b>Financing, net</b>           | <b>11,951,530</b> | <b>9,461,589</b>  | <b>1,491,190</b> | <b>511,114</b> | <b>23,415,423</b> |

|                                 | 2012             |                   |                  |                |                   |
|---------------------------------|------------------|-------------------|------------------|----------------|-------------------|
| SAR'000                         | Bei ajel         | Installment sales | Musharakah       | Ijarah         | Total             |
| Performing                      | 8,915,846        | 7,680,952         | 1,471,247        | 529,348        | 18,597,393        |
| Non-performing                  | 597,065          | 69,323            | 85,914           | -              | 752,302           |
| Total                           | 9,512,911        | 7,750,275         | 1,557,161        | 529,348        | 19,349,695        |
| Allowance for impairment charge | (780,261)        | (209,783)         | (103,975)        | -              | (1,094,019)       |
| <b>Financing, net</b>           | <b>8,732,650</b> | <b>7,540,492</b>  | <b>1,453,186</b> | <b>529,348</b> | <b>18,255,676</b> |

**a . Allowance for impairment charge for financing:**

The movement in the impairment provision for financing for the years ended 31 December is as follows:

|   | 2013           | 2012             |
|---|----------------|------------------|
|   | SAR' 000       | SAR' 000         |
| Balance at beginning of the year          | 1,094,019      | 884,079          |
| Provided during the year                  | 196,078        | 292,981          |
| Amounts written off during the year       | (373,995)      | (65,280)         |
| Recoveries of amounts previously provided | (20,791)       | (17,761)         |
| <b>Balance at end of the year</b>         | <b>895,311</b> | <b>1,094,019</b> |

**b . Economic sector risk concentration for the financing and allowance for impairment are as follows :**

|                                  | 2013                 |                           |                                 |                   |
|----------------------------------|----------------------|---------------------------|---------------------------------|-------------------|
| SAR' 000                         | Performing financing | Non- performing financing | Allowance for impairment charge | Financing, net    |
| Commercial                       | 3,215,514            | 73,388                    | (166,163)                       | 3,122,739         |
| Industrial                       | 2,785,084            | 2,811                     | (83,115)                        | 2,704,780         |
| Building and construction        | 3,556,238            | 61,953                    | (159,770)                       | 3,458,421         |
| Transportation and communication | 308,638              | -                         | (8,899)                         | 299,739           |
| Services                         | 1,486,388            | 8,981                     | (51,515)                        | 1,443,854         |
| Agriculture and fishing          | 669,907              | -                         | (19,315)                        | 650,592           |
| Personal                         | 9,486,885            | 122,945                   | (148,241)                       | 9,461,589         |
| Other                            | 2,341,212            | 190,790                   | (258,293)                       | 2,273,709         |
| <b>Total</b>                     | <b>23,849,866</b>    | <b>460,868</b>            | <b>(895,311)</b>                | <b>23,415,423</b> |

|                                  | 2012                 |                           |                                 |                   |
|----------------------------------|----------------------|---------------------------|---------------------------------|-------------------|
| SAR' 000                         | Performing financing | Non- performing financing | Allowance for impairment charge | Financing, net    |
| Commercial                       | 2,015,389            | 94,220                    | (124,074)                       | 1,985,535         |
| Industrial                       | 1,716,791            | 308,360                   | (345,843)                       | 1,679,308         |
| Building and construction        | 3,873,751            | 35,213                    | (110,622)                       | 3,798,342         |
| Transportation and communication | 1,978                | -                         | (43)                            | 1,935             |
| Services                         | 874,804              | 54,394                    | (72,228)                        | 856,970           |
| Agriculture and fishing          | 702,918              | -                         | (15,346)                        | 687,572           |
| Personal                         | 7,680,952            | 69,323                    | (209,783)                       | 7,540,492         |
| Other                            | 1,730,810            | 190,792                   | (216,080)                       | 1,705,522         |
| <b>Total</b>                     | <b>18,597,393</b>    | <b>752,302</b>            | <b>(1,094,019)</b>              | <b>18,255,676</b> |

### c. Credit quality of portfolio (neither past due nor impaired)

Balances outstanding against each sub-category as at December 31 area as follows:

**Excellent:**

Strong financial position with excellent liquidity, capitalization, earnings, cash flow, management and capacity to repay are excellent.

**Good:**

Healthy financial position with good liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

**Satisfactory:**

Acceptable financial position with reasonable liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

**Fair risk:**

Financial position is fair but volatile. However, capacity to repay remains acceptable.

**Watch list:**

Cash flow problems may result in delay in payment of profit / installment. Facilities require frequent monitoring, however management considers that full repayment will be received.

The Bank has categorizes its financing portfolio that are neither past due nor impaired into five sub categories as follows:

| Grades       | 2013<br>SAR' 000  | 2012<br>SAR' 000  |
|--------------|-------------------|-------------------|
| Excellent    | 3,004,926         | 2,350,871         |
| Good         | 12,020,226        | 9,177,661         |
| Satisfactory | 2,499,553         | 1,804,705         |
| Fair risk    | 5,375,191         | 4,455,694         |
| Watch list   | 710,768           | 518,998           |
| <b>Total</b> | <b>23,610,664</b> | <b>18,307,929</b> |

**d . quality of the portfolio (individually impaired financing)**

The table below sets out gross balances of individually impaired financing, together with the fair value of related collaterals held by the Bank as at 31 December, comprise the following:

| <b>SAR'000</b>                  | <b>2013</b>     |                          |               |                   |                |
|---------------------------------|-----------------|--------------------------|---------------|-------------------|----------------|
|                                 | <b>Bei Ajel</b> | <b>Installment sales</b> | <b>Ijarah</b> | <b>Musharakah</b> | <b>Total</b>   |
| Individually impaired financing | <b>244,258</b>  | <b>122,945</b>           | -             | <b>93,665</b>     | <b>460,868</b> |
| Fair value of collateral        | <b>410,238</b>  | <b>5,980</b>             | -             | <b>463,749</b>    | <b>879,967</b> |

| <b>SAR'000</b>                  | <b>2012</b>     |                          |               |                   |              |
|---------------------------------|-----------------|--------------------------|---------------|-------------------|--------------|
|                                 | <b>Bei Ajel</b> | <b>Installment sales</b> | <b>Ijarah</b> | <b>Musharakah</b> | <b>Total</b> |
| Individually impaired financing | 597,065         | 69,323                   | -             | 85,914            | 752,302      |
| Fair value of collateral        | 608,588         | 2,905                    | -             | 271,783           | 883,276      |

**e . Credit quality of portfolio (past due but not impaired)**

| <b>SAR'000</b>           | <b>2013</b>     |                          |               |                   |                |
|--------------------------|-----------------|--------------------------|---------------|-------------------|----------------|
|                          | <b>Bei Ajel</b> | <b>Installment sales</b> | <b>Ijarah</b> | <b>Musharakah</b> | <b>Total</b>   |
| 1 to 30 days             | <b>34,301</b>   | <b>152,512</b>           | -             | <b>5,111</b>      | <b>191,924</b> |
| 31 to 90 days            | -               | <b>47,278</b>            | -             | -                 | <b>47,278</b>  |
| 91 to 180 days           | -               | -                        | -             | -                 | -              |
| Above 180 days           | -               | -                        | -             | -                 | -              |
| Total                    | <b>34,301</b>   | <b>199,790</b>           | -             | <b>5,111</b>      | <b>239,202</b> |
| Fair value of collateral | <b>51,309</b>   | <b>17,600</b>            | -             | -                 | <b>68,909</b>  |

| <b>SAR'000</b>           | <b>2012</b>     |                          |               |                   |              |
|--------------------------|-----------------|--------------------------|---------------|-------------------|--------------|
|                          | <b>Bei Ajel</b> | <b>Installment sales</b> | <b>Ijarah</b> | <b>Musharakah</b> | <b>Total</b> |
| 1 to 30 days             | 151,572         | 81,668                   | -             | 28,871            | 262,111      |
| 31 to 90 days            | 918             | 26,435                   | -             | -                 | 27,353       |
| 91 to 180 days           | -               | -                        | -             | -                 | -            |
| Above 180 days           | -               | -                        | -             | -                 | -            |
| Total                    | 152,490         | 108,103                  | -             | 28,871            | 289,464      |
| Fair value of collateral | 257,201         | 16,651                   | -             | 28,871            | 302,723      |

Neither past due nor impaired and past due but not impaired comprise the total performing financing.

## f. Collateral

The Group in the ordinary course of its financing activities holds collateral as security to mitigate credit risk. The collateral mostly includes deposits, financial guarantees, local equities and real estate. Collateral is principally held against corporate and real estate facilities and is managed against relevant exposures at their net realizable values.

The financing balances at December 31 as per the type of collateral are as follows:

| 2013                  |                   |                  |                |                   |                   |
|-----------------------|-------------------|------------------|----------------|-------------------|-------------------|
| SAR'000               | Bei Ajel          | Musharakah       | Ijarah         | Installment sales | Total             |
| Real estate           | 4,109,875         | 152,772          | -              | 1,466,215         | 5,728,862         |
| Shares and investment | 2,510,176         | 249,225          | -              | -                 | 2,759,401         |
| Third party guarantee | 4,067,222         | 1,061,822        | -              | -                 | 5,129,044         |
| Assets under Ijarah   | -                 | -                | 526,288        | 631,000           | 1,157,288         |
| Unsecured             | 1,863,070         | 160,454          | -              | 7,512,615         | 9,536,139         |
| <b>Total</b>          | <b>12,550,343</b> | <b>1,624,273</b> | <b>526,288</b> | <b>9,609,830</b>  | <b>24,310,734</b> |

| 2012                  |                  |                  |                |                   |                   |
|-----------------------|------------------|------------------|----------------|-------------------|-------------------|
| SAR'000               | Bei Ajel         | Musharakah       | Ijarah         | Installment sales | Total             |
| Real estate           | 4,210,073        | 168,231          | -              | 1,477,069         | 5,855,373         |
| Shares and investment | 1,922,593        | 94,470           | -              | -                 | 2,017,063         |
| Third party guarantee | 2,671,682        | 1,202,107        | -              | -                 | 3,873,789         |
| Assets under Ijarah   | -                | -                | 529,348        | -                 | 529,348           |
| Unsecured             | 708,563          | 92,353           | -              | 6,273,206         | 7,074,122         |
| <b>Total</b>          | <b>9,512,911</b> | <b>1,557,161</b> | <b>529,348</b> | <b>7,750,275</b>  | <b>19,349,695</b> |



## 8- PROPERTY AND EQUIPMENT, NET

Property and equipment, net as at December 31, comprises the following:

| SAR' 000   | Land and building | Leasehold improvement | Equipment and furniture | Computer hardware and software | Total 2013       | Total 2012     |
|--|-------------------|-----------------------|-------------------------|--------------------------------|------------------|----------------|
| <b>Cost</b>                                      |                   |                       |                         |                                |                  |                |
| At the beginning of the year                     | 12,304            | 434,822               | 214,916                 | 291,009                        | <b>953,051</b>   | 916,140        |
| Additions during the year                        | 411,915           | 29,945                | 36,461                  | 44,694                         | <b>523,015</b>   | 96,446         |
| Disposal   | -                 | (55)                  | (3,304)                 | (17,757)                       | <b>(21,116)</b>  | (59,535)       |
| <b>At December 31</b>                            | <b>424,219</b>    | <b>464,712</b>        | <b>248,073</b>          | <b>317,946</b>                 | <b>1,454,950</b> | <b>953,051</b> |
| <b>Accumulated depreciation and amortization</b> |                   |                       |                         |                                |                  |                |
| At the beginning of the year                     | 471               | 219,764               | 154,646                 | 241,945                        | <b>616,826</b>   | 587,704        |
| Charge for the year                              | 639               | 43,194                | 22,948                  | 21,743                         | <b>88,524</b>    | 88,020         |
| Disposal   | -                 | (55)                  | (3,290)                 | (9,259)                        | <b>(12,604)</b>  | (58,898)       |
| <b>At December 31</b>                            | <b>1,110</b>      | <b>262,903</b>        | <b>174,304</b>          | <b>254,429</b>                 | <b>692,746</b>   | <b>616,826</b> |
| Net book value:                                  |                   |                       |                         |                                |                  |                |
| At December 31, 2013                             | 423,109           | 201,809               | 73,769                  | 63,517                         | <b>762,204</b>   |                |
| At December 31, 2012                             | 11,833            | 215,058               | 60,270                  | 49,064                         |                  | 336,225        |

Leasehold improvements include work-in-progress as at December 31, 2013 amounting to SAR 25 million (2012: SAR 23 million).

## 9- OTHER ASSETS

Other assets as at December 31, comprises the following:

|                           | 2013           | 2012     |
|---------------------------|----------------|----------|
|                           | SAR' 000       | SAR' 000 |
| Management fee receivable | <b>41,982</b>  | 47,728   |
| Advances to suppliers     | <b>28,159</b>  | 22,572   |
| Prepaid rent              | <b>24,862</b>  | 19,362   |
| Others                    | <b>41,114</b>  | 50,843   |
| <b>Total</b>              | <b>136,117</b> | 140,505  |

## 10- DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions as at December 31, comprise the following:

| SAR' 000         | 2013           | 2012           |
|------------------|----------------|----------------|
| Current accounts | 74,560         | 76,851         |
| Time investments | 901,056        | 493,979        |
| <b>Total</b>     | <b>975,616</b> | <b>570,830</b> |

## 11- CUSTOMERS' DEPOSITS

Customer deposits as at December 31, comprise the following:

| SAR' 000     | Notes | 2013              | 2012              |
|--------------|-------|-------------------|-------------------|
| Demand       | 11.1  | 22,640,801        | 18,472,482        |
| Saving       |       | 3,069,358         | 3,121,571         |
| Time         |       | 2,755,637         | 1,670,237         |
| Others       | 11.2  | 641,922           | 477,334           |
| <b>Total</b> |       | <b>29,107,718</b> | <b>23,741,624</b> |

11.1 Demand includes foreign currency deposits of SAR 303 million (2012: SAR 346 million).

11.2 Other deposits include deposits on behalf of the Bank's mutual funds of SAR 13.5 million (2012: SAR 7 million) and margins held for irrevocable commitments of SAR 628 million (2012: SAR 470 million). It includes foreign currency margin of SAR 66.3 million (2012: SAR 62.2 million).

## 12- OTHER LIABILITIES

Other liabilities as of December 31, comprise the following:

| SAR' 000                   | 2013             | 2012             |
|----------------------------|------------------|------------------|
| Accounts payable           | 577,118          | 756,576          |
| Accrued expenses - Staff   | 159,499          | 142,743          |
| Accrued operating expenses | 59,488           | 60,045           |
| Others                     | 342,980          | 134,867          |
| <b>Total</b>               | <b>1,139,085</b> | <b>1,094,231</b> |

### 13- SHARE CAPITAL

The authorized issued and fully paid capital of the Bank consists of 400 million shares of SAR 10 each (2012: 300 million shares of SAR 10 each).

### 14- STATUTORY RESERVE

In accordance with Article 13 of the Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 182 million (2012: SAR 235 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

### 15- BONUS SHARES

The shareholders' of the Bank in their Extra Ordinary General Assembly meeting held on April 9, 2013 approved issuance of bonus shares for the year ended December 31, 2012 of 100 million shares of SAR 10 each.

### 16- OTHER RESERVES

Other reserves represent the net unrealized revaluation gains / (losses) on available for sale investments. This reserve is not available for distribution to shareholders.

|  | 2013          | 2012          |
|--|---------------|---------------|
|  | SAR' 000      | SAR' 000      |
| Available for sale Investments               |               |               |
| Balance at beginning of the year             | 15,066        | 6,236         |
| Net change in fair value                     | 50,176        | 14,055        |
| Transfer to consolidated statement of income | (21,904)      | (5,225)       |
| Net movement during the year                 | 28,272        | 8,830         |
| <b>Balance at end of the year</b>            | <b>43,338</b> | <b>15,066</b> |

### 17- COMMITMENTS AND CONTINGENCIES

#### a. Legal proceedings

There were legal proceedings as at December 31, 2013, outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

#### b. Capital commitments

As at December 31, 2013, the Bank had capital commitments of SAR 46 million (2012: SAR 68 million) relating to leasehold improvements for its new branches, remittance center and ATM.

### c. Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

#### i. The contractual maturity structure of the Bank's commitments and contingencies is as follows:

| 2013<br>(SAR' 000)   | Less than 3 months | From 3 months<br>to 12 months | From 1 to 5<br>Years | More than 5<br>Years | Total            |
|----------------------|--------------------|-------------------------------|----------------------|----------------------|------------------|
| Letters of credit    | 371,877            | 590,936                       | 584,712              | -                    | 1,547,525        |
| Letters of guarantee | 285,808            | 1,072,591                     | 1,362,849            | 111,963              | 2,833,211        |
| Acceptances          | 262,676            | 50,950                        | -                    | -                    | 313,626          |
| <b>Total</b>         | <b>920,361</b>     | <b>1,714,477</b>              | <b>1,947,561</b>     | <b>111,963</b>       | <b>4,694,362</b> |

| 2012<br>(SAR' 000)   | Less than 3 months | From 3 months<br>to 12 months | From 1 to 5<br>Years | More than 5<br>Years | Total            |
|----------------------|--------------------|-------------------------------|----------------------|----------------------|------------------|
| Letters of credit    | 454,562            | 649,838                       | 59,968               | -                    | 1,164,368        |
| Letters of guarantee | 347,038            | 1,086,340                     | 877,051              | 60,876               | 2,371,305        |
| Acceptances          | 209,294            | 53,099                        | -                    | -                    | 262,393          |
| <b>Total</b>         | <b>1,010,894</b>   | <b>1,789,277</b>              | <b>937,019</b>       | <b>60,876</b>        | <b>3,798,066</b> |

The outstanding unused portion of commitments, as of December 31, 2013, which can be revoked at any time by the Bank amounts to SAR 1.7 billion (2012: SAR 4 billion).

**ii. Commitments and contingencies by counter party as of December 31 is as follows :**

|                        | 2013             | 2012             |
|------------------------|------------------|------------------|
|                        | SAR' 000         | SAR' 000         |
| Corporate              | 4,427,577        | 3,586,654        |
| Financial institutions | 230,155          | 164,066          |
| Other                  | 36,630           | 47,346           |
| <b>Total</b>           | <b>4,694,362</b> | <b>3,798,066</b> |

**d. Operating lease commitments**

The future minimum lease payments under non-cancelable operating leases where the Bank is the lessee are as follows:

|                        | 2013           | 2012           |
|------------------------|----------------|----------------|
|                        | SAR' 000       | SAR' 000       |
| Less than one year     | 112,423        | 94,559         |
| One year to five years | 237,504        | 234,207        |
| Over five years        | 198,929        | 140,383        |
| <b>Total</b>           | <b>548,856</b> | <b>469,149</b> |

**e. Zakat**

The Bank received the Zakat assessments raised by Department of Zakat and Income Tax (DZIT) in respect of years from 2006 to 2008 claiming additional Zakat liability of SR 62, SR 60 and SR 55 million for years 2006, 2007 and 2008 respectively. The differences are primarily due to the disallowance of financing and other financial assets and certain expenses from the Zakat base as calculated by the Bank.

The Bank has filed an appeal with the Preliminary Committee against the DZIT's assessments' for the above mentioned years. The Preliminary Committee upheld the DZIT's assessment for 2006. However, the Bank filed an appeal with the higher Appellate Committee against the Preliminary Committee's ruling.

Further, the Bank in consultation with its advisors has contested the assessment made by DZIT and along with the Saudi banking industry has raised this issue with SAMA for a satisfactory resolution. Accordingly, the Bank did not record the additional zakat liability mentioned above as assessed by DZIT for the years 2006, 2007 and 2008 in the consolidated financial statements.

Zakat payable by the shareholders for the year ended December 31, 2013 amounted to SAR 19.5 million (2012: SAR 24.3 million). Zakat is paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

Zakat base for the years from 2009 to 2013 have been calculated on basis consistent with prior years.

Pursuant to the issuance of bonus shares, the Bank has adjusted the amount paid to the DZIT from the retained earnings for the assessment years from 2006 to 2011.

## 18- INCOME FROM INVESTING AND FINANCING ASSETS

Income from investing and financing assets held at amortized cost for the year ended December 31, comprises the following:

|  | 2013           | 2012           |
|--|----------------|----------------|
|  | SAR' 000       | SAR' 000       |
| <b>Investments and Due from Banks and other financial institutions</b> |                |                |
| Commodity murabaha with  |                |                |
| - SAMA   | 7,655          | 1,834          |
| - Banks and other financial institutions                               | 47,850         | 49,821         |
| Profit from floating rate sukuk  | 4,053          | 1,094          |
| <b>Financing</b>   |                |                |
| Bei ajel   | 443,243        | 392,994        |
| Installment sales  | 400,438        | 358,306        |
| Ijarah   | 14,814         | 6,326          |
| Musharakah   | 56,597         | 50,178         |
| <b>Total</b>   | <b>974,650</b> | <b>860,553</b> |

## 19- RETURN ON DEPOSITS AND FINANCIAL LIABILITIES

Return paid on deposits and financial liabilities for the year ended December 31, comprises of following:

|                 | 2013          | 2012          |
|-----------------|---------------|---------------|
|                 | SAR' 000      | SAR' 000      |
| Due to Banks    | 2,863         | 1,316         |
| <b>Deposits</b> |               |               |
| - Saving        | 6,655         | 5,892         |
| - Time          | 18,510        | 13,831        |
| <b>Total</b>    | <b>28,028</b> | <b>21,039</b> |



## 20- FEES AND COMMISSION INCOME, NET

Fees and commission income, net for the year ended December 31, comprise the following:

|   | 2013           | 2012           |
|---|----------------|----------------|
|   | SAR' 000       | SAR' 000       |
| <b>Fees and commission income</b>       |                |                |
| ATM and point of sale                   | 102,735        | 97,904         |
| Brokerage income                        | 32,952         | 44,726         |
| Letter of credit and guarantee          | 44,200         | 40,369         |
| Remittance                              | 425,653        | 424,323        |
| Management fee (mutual fund and others) | 43,463         | 31,116         |
| Facilities management fee               | 74,857         | 47,594         |
| Documentation fee                       | 33,023         | 33,592         |
| Others                                  | 9,517          | 13,274         |
| <b>Total fees income</b>                | <b>766,400</b> | <b>732,898</b> |
| <b>Fees and commission expenses</b>     |                |                |
| ATM and point of sale                   | 87,042         | 76,647         |
| Brokerage expenses                      | 2,610          | 3,481          |
| Remittance                              | 3,119          | 2,004          |
| Others                                  | 7,914          | 5,466          |
| <b>Total fees expenses</b>              | <b>100,685</b> | <b>87,598</b>  |
| Fees and commission income, net         | 665,715        | 645,300        |

## 21-DIVIDEND INCOME

Dividend income for the year ended December 31, comprise the following:

|          | 2013     | 2012     |
|----------|----------|----------|
|          | SAR' 000 | SAR' 000 |
| Quoted   | 7,779    | 11,717   |
| Unquoted | 5,743    | -        |
|          | 13,522   | 11,717   |

## 22- GAINS ON NON-TRADING INVESTMENTS, NET

Gains on non – trading investments for the year ended December 31, comprise the following:

|                                | 2013     | 2012     |
|--------------------------------|----------|----------|
|                                | SAR' 000 | SAR' 000 |
| Available-for-sale investments | 21,904   | 5,225    |

## 23- OTHER OPERATING INCOME

Other operating income for the year ended December 31, comprise the following:

|   | 2013          | 2012         |
|---|---------------|--------------|
|   | SAR' 000      | SAR' 000     |
| Recovery of written-off financing       | 16,189        | -            |
| Gains on sale of property and equipment | 4,452         | 1,356        |
| Others                                  | 3,460         | 264          |
| <b>Total</b>                            | <b>24,101</b> | <b>1,620</b> |

## 24- SALARIES AND EMPLOYEE RELATED BENEFITS

|   | Number of Employees |       | Fixed compensation | Variable Compensation Paid |        |        |      |       |        |        |
|---|---------------------|-------|--------------------|----------------------------|--------|--------|------|-------|--------|--------|
|   |                     |       |                    | Cash                       |        | Shares |      | Total |        |        |
|   |                     |       | SAR' 000           |                            |        |        |      |       |        |        |
|   | 2013                | 2012  | 2013               | 2012                       | 2013   | 2012   | 2013 | 2012  | 2013   | 2012   |
| Senior executives requiring SAMA no objection | 7                   | 7     | 13,976             | 14,919                     | 7,243  | 5,350  | -    | -     | 7,243  | 5,350  |
| Employees engaged in risk taking activities   | 99                  | 87    | 32,684             | 26,597                     | 3,694  | 2,209  | -    | -     | 3,694  | 2,209  |
| Employees engaged in control functions        | 246                 | 212   | 54,243             | 47,508                     | 4,722  | 3,184  | -    | -     | 4,722  | 3,184  |
| Other employees                               | 2,606               | 2,234 | 255,481            | 239,647                    | 17,855 | 12,231 | -    | -     | 17,855 | 12,231 |
| Outsourced employees                          | 249                 | 300   | 37,598             | 28,506                     | -      | -      | -    | -     | -      | -      |
| Total   | 3,207               | 2,840 | 393,982            | 357,177                    | 33,514 | 22,974 | -    | -     | 33,514 | 22,974 |
| Variable Compensation accrued                 |                     |       | 36,034             | 61,959                     |        |        |      |       |        |        |
| Other employee related benefits               |                     |       | 152,231            | 98,221                     |        |        |      |       |        |        |
| Total Salaries and employee related expenses  |                     |       | 582,247            | 517,357                    |        |        |      |       |        |        |

The Bank has a very comprehensive Compensation Policy, the aim of which is to recruit, train, develop, promote and retain the best available talents who shall contribute to and assist the bank in realizing its business goals and objectives. The aim of this policy is also to ensure that, at all times, The Bank has the adequate number of employees with the right qualifications, skills and traits to perform jobs that will result in achieving short and long-term objectives and goals of the Bank and are align to the overall risk strategy of the Bank. The Bank encourages internal recruitment to provide its existing employees with career enhancement opportunities as long as this does not conflict with or hinderp the plans of the employee's existing unit.

The Compensation Policy in addition to the monthly remuneration and benefits, includes performance incentive scheme for all employees which is based on the performance of the Bank as a whole, performance of the respective Group / Division / Department and the performance of the individual employee. All these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period.

The Board of Directors of the Bank has established a Nominations and Remuneration Committee, comprising of the following members:

1. **Mr. Abdulrahman bin Mohammed Ramzi Addas – Chariman.**
2. **Mr. Nasser bin Mohammed AlSubaie – Member.**
3. **Mr. Khaled bin Abdulaziz AlMukairin – Member.**
4. **Mr. Ahmed bin Abdul Aziz Alohal – Member.**
5. **Mr. Khaled bin Saleh AlHathal – Member.**

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

## 25- NON- OPERATING INCOME

During the first quarter of 2012, the Bank sold a parcel of land which was included under other assets with carrying value of SAR 280 million. The Bank acquired the land in 2007 for its own use. The land was sold for a total consideration of SAR 653 million and a gain of SAR 373 million was recognised as non-operating income in 2012.

The Bank granted Bei Ajel facility for the amount of SAR 503 million to the Company acquiring the land (the «Company»), which had fully utilized the issued facility. Based on the facility terms, the financed amount has been fully settled.

## 26- BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2013 and 2012 is calculated by dividing the net income for the year attributable to the equity holders by 400 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus shares issued which was approved in their Extra Ordinary General Assembly meeting held on April 9, 2013.

## 27- CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows as of December 31, comprise the following:

| <b>SAR' 000</b>   | <b>Note</b> | <b>2013</b>      | <b>2012</b>      |
|---|-------------|------------------|------------------|
| Cash  |             | <b>1,609,797</b> | 1,153,106        |
| Due from banks and other financial institutions<br>(maturing within ninety days from acquisition) |             | <b>4,319,748</b> | 3,688,561        |
| Balances with SAMA (excluding statutory deposit)  | 4           | <b>800,484</b>   | 234,994          |
| <b>Total</b>  |             | <b>6,730,029</b> | <b>5,076,661</b> |

28- SEGMENTAL INFORMATION

Operating segments, based on customer, groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO), the Chief Operating Decision Maker, in order to allocate resources to the segments and to assess its performance. The Group’s main business is conducted in the Kingdom of Saudi Arabia.

For management purposes, the Group is divided into the following five segments:

|                                  |   |
|----------------------------------|---|
| Retail banking                   | Services and products to individuals, including deposits, financing, remittances and currency exchange.                                     |
| Corporate banking                | Services and products including deposits, financing and trade services to corporate and commercial customers.                               |
| Treasury                         | Money market, trading and treasury services.  |
| Investment banking and brokerage | Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities. |
| Other                            | All other support functions.  |

Transactions between the above segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to business segments, based on approved criteria.

a. The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended December 31, for each segment are as follows:

| SAR' 000   | 2013           |                   |               |                                  |               |                |
|--|----------------|-------------------|---------------|----------------------------------|---------------|----------------|
|  | Retail Banking | Corporate Banking | Treasury      | Investment banking and brokerage | Other         | Total          |
| Total assets   | 12,229,036     | 14,777,653        | 7,774,105     | 288,500                          | 1,254,014     | 36,323,308     |
| Capital expenditures   | 64,843         | 108               | 94            | 4,024                            | 453,946       | 523,015        |
| Total liabilities  | 19,067,695     | 10,114,583        | 901,056       | 121,079                          | 1,018,006     | 31,222,419     |
| Net income from investing and financing assets               | 400,802        | 462,333           | 43,998        | 1,104                            | 38,385        | 946,622        |
| Fee, commission and other income, net                        | 659,284        | 114,716           | 74,888        | 65,566                           | 56,152        | 970,606        |
| Total operating income                                       | 1,060,086      | 577,049           | 118,886       | 66,670                           | 94,537        | 1,917,228      |
| Impairment charge for financing, net                         | 63,457         | 111,830           | -             | -                                | -             | 175,287        |
| Reversal of impairment charge on other financial assets, net | -              | -                 | (5,340)       | -                                | -             | (5,340)        |
| Depreciation and amortization                                | 81,592         | 5,983             | 596           | 353                              | -             | 88,524         |
| Total operating expenses                                     | 814,519        | 308,827           | 30,016        | 34,698                           | -             | 1,188,060      |
| Net operating income for the year                            | 245,567        | 268,222           | 88,870        | 31,972                           | 94,537        | 729,168        |
| Non-operating income   | -              | -                 | -             | -                                | -             | -              |
| <b>Net income for the year</b>                               | <b>245,567</b> | <b>268,222</b>    | <b>88,870</b> | <b>31,972</b>                    | <b>94,537</b> | <b>729,168</b> |

| SAR' 000                                       | 2012           |                   |               |                                  |               | Total          |
|--|----------------|-------------------|---------------|----------------------------------|---------------|----------------|
|  | Retail Banking | Corporate Banking | Treasury      | Investment banking and brokerage | Other         |                |
| Total assets                                   | 9,780,498      | 11,572,550        | 7,567,538     | 763                              | 856,152       | 29,777,501     |
| Capital expenditures                           | 35,748         | 192               | 66            | 2,155                            | 58,285        | 96,446         |
| Total liabilities                              | 16,498,105     | 7,320,370         | 493,979       | 85,762                           | 1,008,469     | 25,406,685     |
| Net income from investing and financing assets | 370,839        | 405,199           | 32,972        | -                                | 30,504        | 839,514        |
| Fee, commission and other income, net          | 630,082        | 94,301            | 92,283        | 63,116                           | 18,084        | 897,866        |
| Total operating income                         | 1,000,921      | 499,500           | 125,255       | 63,116                           | 48,588        | 1,737,380      |
| Impairment charge for financing, net           | 82,751         | 192,469           | -             | -                                | -             | 275,220        |
| Depreciation and amortization                  | 74,407         | 12,260            | 1,082         | 271                              | -             | 88,020         |
| Total operating expenses                       | 733,001        | 370,094           | 32,350        | 33,298                           | -             | 1,168,743      |
| <b>Net operating income for the year</b>       | <b>267,920</b> | <b>129,406</b>    | <b>92,905</b> | <b>29,818</b>                    | <b>48,588</b> | <b>568,637</b> |
| Non-operating income                           | -              | -                 | -             | -                                | 373,167       | 373,167        |
| Net income for the year                        | 267,920        | 129,406           | 92,905        | 29,818                           | 421,755       | 941,804        |

**b. The Group credit exposure by business segments is as follows:**

| SAR' 000                             | 2013                   |                   |                  |                   |
|--------------------------------------|------------------------|-------------------|------------------|-------------------|
|                                      | Retail banking segment | Corporate         | Treasury         | Total             |
| <b>Total asset</b>                   | <b>9,461,589</b>       | <b>13,953,834</b> | <b>7,207,656</b> | <b>30,623,079</b> |
| <b>Commitments and Contingencies</b> | <b>-</b>               | <b>3,005,530</b>  | <b>-</b>         | <b>3,005,530</b>  |

| SAR' 000                      | 2012                   |            |           |            |
|-------------------------------|------------------------|------------|-----------|------------|
|                               | Retail banking segment | Corporate  | Treasury  | Total      |
| Total asset                   | 7,540,492              | 10,715,184 | 7,676,005 | 25,931,681 |
| Commitments and Contingencies | -                      | 1,784,664  | -         | 1,784,664  |

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure.



## 29- FINANCIAL RISK MANAGEMENT

Banking activities involve varieties of financial risks which are assessed by conducting set of analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group financial performance with ultimate objective of enhancing the shareholders' value.

The Group risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigates and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practice.

The Board has appointed the Risk and Compliance Committee which has the responsibility to monitor the overall risk process within the bank. The Risk and Compliance Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is the responsible for managing risk decisions and monitoring risk levels. The Risk and Compliance Committee reports on a regular basis to the Board of Directors.

## 30- CREDIT RISK

The Group manages exposure to credit risk, which 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. Credit exposures arrive principally in financing and investment activities. There is also credit risk in off-financial position financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. Also, the Bank uses external ratings of the major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

Management, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market products and emerging best practice.

Analysis of investments by counter-party is provided in note 6(b). for financing in note 7. For commitments and contingencies in note 17. The information on the Bank's maximum credit and credit risk exposure by operating business segment given in note 28(b).

## a . Geographical Concentration

**I. The geographical distribution of major assets, liabilities, commitments and contingencies and credit exposure as of December 31:**

| SAR' 000   | 2013                    |                           |        |                 |                 | Total      |
|--|-------------------------|---------------------------|--------|-----------------|-----------------|------------|
|  | Kingdom of Saudi Arabia | Other GCC and Middle East | Europe | South East Asia | Other countries |            |
| Assets   |                         |                           |        |                 |                 |            |
| Cash and balances with SAMA  | 4,186,998               | -                         | -      | -               | -               | 4,186,998  |
| Due from banks and other financial institutions, net                               | 3,991,953               | 1,948,939                 | 93,031 | 32,482          | 89,092          | 6,155,497  |
| Investments, net   | 1,667,069               | -                         | -      | -               | -               | 1,667,069  |
| Financing, net   | 23,415,423              | -                         | -      | -               | -               | 23,415,423 |
| Total  | 33,261,443              | 1,948,939                 | 93,031 | 32,482          | 89,092          | 35,424,987 |
| Liabilities  |                         |                           |        |                 |                 |            |
| Due to banks and other financial institutions                                      | 188,319                 | 656,682                   | -      | -               | 130,615         | 975,616    |
| Customers' deposits  | 29,107,718              | -                         | -      | -               | -               | 29,107,718 |
| Total  | 29,296,037              | 656,682                   | -      | -               | 130,615         | 30,083,334 |
|  |                         |                           |        |                 |                 |            |
| Commitments and contingencies  | 4,694,362               | -                         | -      | -               | -               | 4,694,362  |
|  |                         |                           |        |                 |                 |            |
| Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies | 3,005,530               | -                         | -      | -               | -               | 3,005,530  |

| SAR' 000   | 2012                    |                           |         |                 |                 | Total      |
|--|-------------------------|---------------------------|---------|-----------------|-----------------|------------|
|  | Kingdom of Saudi Arabia | Other GCC and Middle East | Europe  | South East Asia | Other countries |            |
| Assets   |                         |                           |         |                 |                 |            |
| Cash and balances with SAMA  | 2,932,369               | -                         | -       | -               | -               | 2,932,369  |
| Due from banks and other financial institutions, net                               | 4,216,687               | 1,994,876                 | 255,575 | 21,330          | 86,998          | 6,575,466  |
| Investments, net   | 1,537,260               | -                         | -       | -               | -               | 1,537,260  |
| Financing, net   | 18,255,676              | -                         | -       | -               | -               | 18,255,676 |
| Total  | 26,941,992              | 1,994,876                 | 255,575 | 21,330          | 86,998          | 29,300,771 |
| Liabilities  |                         |                           |         |                 |                 |            |
| Due to banks and other financial institutions                                      | 193,760                 | 376,573                   | -       | -               | 497             | 570,830    |
| Customers' deposits  | 23,741,624              | -                         | -       | -               | -               | 23,741,624 |
| Total  | 23,935,384              | 376,573                   | -       | -               | 497             | 24,312,454 |
| Commitments and contingencies  | 3,798,066               | -                         | -       | -               | -               | 3,798,066  |
| Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies | 1,784,664               | -                         | -       | -               | -               | 1,784,664  |

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-financial position commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Bank meeting its commitments.

**II. The geographical distribution of the impaired investing and financing assets and the impairments provision for investing and financing assets is set out as below:**

| 2013  |                            |                                 |        |                    |                    |         |
|---|----------------------------|---------------------------------|--------|--------------------|--------------------|---------|
| SAR' 000  | Kingdom<br>of Saudi Arabia | Other GCC<br>and<br>Middle East | Europe | South<br>East Asia | Other<br>countries | Total   |
| Non- performing financing<br>assets                   | 460,868                    | -                               | -      | -                  | -                  | 460,868 |
| Provision for impairment on<br>financing assets       | 895,311                    | -                               | -      | -                  | -                  | 895,311 |
| Non- performing other<br>financial assets             | -                          | 90,923                          | -      | -                  | -                  | 90,923  |
| Provision for impairment on<br>other financial assets | -                          | 90,923                          | -      | -                  | -                  | 90,923  |

| 2012  |                            |                                 |        |                    |                    |           |
|---|----------------------------|---------------------------------|--------|--------------------|--------------------|-----------|
| SAR' 000  | Kingdom<br>of Saudi Arabia | Other GCC<br>and<br>Middle East | Europe | South<br>East Asia | Other<br>countries | Total     |
| Non- performing financing<br>assets                   | 752,302                    | -                               | -      | -                  | -                  | 752,302   |
| Provision for impairment on<br>financing assets       | 1,094,019                  | -                               | -      | -                  | -                  | 1,094,019 |
| Non- performing other<br>financial assets             | -                          | 96,263                          | -      | -                  | -                  | 96,263    |
| Provision for impairment on<br>other financial assets | -                          | 96,263                          | -      | -                  | -                  | 96,263    |

## 31- MARKET RISK

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates, and equity prices.

### a. Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Bank does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortized cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-interest bearing.

### b. Foreign exchange rate risk

**I. The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Bank's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.**

The Bank had the following summarized exposure to foreign currency exchange rate risk as at December 31:

|  | 2013                     |                               | 2012                     |                               |
|--|--------------------------|-------------------------------|--------------------------|-------------------------------|
|  | Saudi Riyal<br>SAR ' 000 | Foreign Currency<br>SAR ' 000 | Saudi Riyal<br>SAR ' 000 | Foreign Currency<br>SAR ' 000 |
| <b>Assets</b>  |                          |                               |                          |                               |
| Cash and balances with SAMA                          | 4,003,877                | 183,121                       | 2,806,827                | 125,542                       |
| Due from banks and other financial institutions, net | 5,526,957                | 628,540                       | 5,749,811                | 825,655                       |
| Investments, net                                     | 1,667,069                | -                             | 1,537,260                | -                             |
| Financing, net                                       | 23,121,870               | 293,553                       | 17,932,415               | 323,261                       |
| Property and equipment, net                          | 762,204                  | -                             | 336,225                  | -                             |
| Other assets   | 104,311                  | 31,806                        | 140,411                  | 94                            |
| <b>Total</b>   | <b>35,186,288</b>        | <b>1,137,020</b>              | <b>28,502,949</b>        | <b>1,274,552</b>              |
| <b>Liabilities and equity</b>                        |                          |                               |                          |                               |
| Due to banks and other financial institutions        | 82,361                   | 893,255                       | 175,266                  | 395,564                       |
| Customer deposits                                    | 28,723,751               | 383,967                       | 23,320,237               | 421,387                       |
| Other liabilities                                    | 1,129,674                | 9,411                         | 1,082,707                | 11,524                        |
| Equity   | 5,100,889                | -                             | 4,370,816                | -                             |
| <b>Total</b>   | <b>35,036,675</b>        | <b>1,286,633</b>              | <b>28,949,026</b>        | <b>828,475</b>                |

A substantial portion of the net foreign currency exposure to the Bank is in US Dollars, where the SAR is pegged to the US Dollar. The other currency exposures are not considered significant to the Bank's foreign exchange rate risks and as a result the Bank is not exposed to major foreign exchange rate risks.

## II. Currency Position

At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

| SAR' 000        | 2013<br>Long/(short) | 2012<br>Long   |
|-----------------|----------------------|----------------|
| US Dollar       | (558,895)            | 381,186        |
| Kuwaiti Dinar   | 8,352                | 6,108          |
| Pakistan Rupees | 43,134               | 11,085         |
| Qatar Riyal     | 290,802              | 11,336         |
| UAE Dirham      | 32,679               | 17,458         |
| Egyptian Pound  | 4,795                | 3,617          |
| Others          | 29,520               | 15,287         |
| <b>Total</b>    | <b>(149,613)</b>     | <b>446,077</b> |

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

### c. Equity Price Risk

Equity risk refers to the risk of decrease in fair values of equities in the Bank's available-for-sale investment portfolio as a result of reasonable possible changes in levels of equity indices over a one year time horizon and the value of individual stocks.

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant is as follows:

|          | December 31, 2013        |                    | December 31, 2012        |                    |
|----------|--------------------------|--------------------|--------------------------|--------------------|
|          | Change in equity price % | Effect in SAR' 000 | Change in equity price % | Effect in SAR' 000 |
| Tadawul  | ±10                      | 46,491             | ± 10                     | 28,672             |
| Unquoted | ± 2                      | 3,000              | ± 2                      | 3,000              |

## 32- LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected discounted cash inflows.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Assets Liability committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiary. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2012: 7%) of total demand deposits and 4% (2012: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

### a. The maturity profile of assets, liabilities and equity as at December 31 are as follows:

| SAR' 000   | 2013            |                    |                     |              |                   | Total      |
|--|-----------------|--------------------|---------------------|--------------|-------------------|------------|
|  | Within 3 Months | 3 months to 1 year | One year to 5 years | Over 5 Years | No fixed Maturity |            |
| Assets   |                 |                    |                     |              |                   |            |
| Cash and balances with SAMA                          | 2,410,281       | -                  | -                   | -            | -                 | 2,410,281  |
| Statutory deposit with SAMA                          | -               | -                  | -                   | -            | 1,776,717         | 1,776,717  |
| Due from banks and other financial institutions, net | 5,442,081       | 713,416            | -                   | -            | -                 | 6,155,497  |
| Investments, net                                     | 1,052,159       | -                  | -                   | -            | 614,910           | 1,667,069  |
| Financing, net                                       | 6,247,159       | 8,358,164          | 8,125,483           | 684,617      | -                 | 23,415,423 |
| Property and equipment, net                          | -               | -                  | -                   | -            | 762,204           | 762,204    |
| Other assets   | -               | -                  | -                   | -            | 136,117           | 136,117    |
| Total assets   | 15,151,680      | 9,071,580          | 8,125,483           | 684,617      | 3,289,948         | 36,323,308 |
| Liabilities and equity                               |                 |                    |                     |              |                   |            |
| Due to banks and other financial institutions        | 787,298         | 188,318            | -                   | -            | -                 | 975,616    |
| Customers' deposits                                  | 26,606,667      | 2,501,051          | -                   | -            | -                 | 29,107,718 |
| Other liabilities                                    | -               | -                  | -                   | -            | 1,139,085         | 1,139,085  |
| Shareholders' equity                                 | -               | -                  | -                   | -            | 5,100,889         | 5,100,889  |
| Total liabilities and equity                         | 27,393,965      | 2,689,369          | -                   | -            | 6,239,974         | 36,323,308 |



|  | 2012              |                    |                     |                |                   |                   |
|--|-------------------|--------------------|---------------------|----------------|-------------------|-------------------|
| SAR' 000   | Within 3 Months   | 3 months to 1 year | One year to 5 years | Over 5 Years   | No fixed Maturity | Total             |
| <b>Assets</b>  |                   |                    |                     |                |                   |                   |
| Cash and balances with SAMA                          | 1,388,100         | -                  | -                   | -              | -                 | 1,388,100         |
| Statutory deposit with SAMA                          | -                 | -                  | -                   | -              | 1,544,269         | 1,544,269         |
| Due from banks and other financial institutions, net | 5,711,336         | 864,130            | -                   | -              | -                 | 6,575,466         |
| Investments, net                                     | 1,100,539         | -                  | -                   | -              | 436,721           | 1,537,260         |
| Financing, net                                       | 3,904,315         | 6,663,250          | 6,941,791           | 746,320        | -                 | 18,255,676        |
| Property and equipment, net                          | -                 | -                  | -                   | -              | 336,225           | 336,225           |
| Other assets   | -                 | -                  | -                   | -              | 140,505           | 140,505           |
| <b>Total assets</b>                                  | <b>12,104,290</b> | <b>7,527,380</b>   | <b>6,941,791</b>    | <b>746,320</b> | <b>2,457,720</b>  | <b>29,777,501</b> |
| <b>Liabilities and equity</b>                        |                   |                    |                     |                |                   |                   |
| Due to banks and other financial institutions        | 570,830           | -                  | -                   | -              | -                 | 570,830           |
| Customers' deposits                                  | 22,423,692        | 1,317,932          | -                   | -              | -                 | 23,741,624        |
| Other liabilities                                    | -                 | -                  | -                   | -              | 1,094,231         | 1,094,231         |
| Shareholders' equity                                 | -                 | -                  | -                   | -              | 4,370,816         | 4,370,816         |
| <b>Total liabilities and equity</b>                  | <b>22,994,522</b> | <b>1,317,932</b>   | <b>-</b>            | <b>-</b>       | <b>5,465,047</b>  | <b>29,777,501</b> |

Analysis of financial liabilities by the remaining contractual maturities as at December 31, are as follows

| SAR' 000                                      | 2013            |                    |                     |              |                   | Total      |
|---|-----------------|--------------------|---------------------|--------------|-------------------|------------|
|   | Within 3 Months | 3 months to 1 year | One year to 5 years | Over 5 Years | No fixed Maturity |            |
| Financial liabilities                         |                 |                    |                     |              |                   |            |
| Due to banks and other financial institutions | 787,380         | 188,836            | -                   | -            | -                 | 976,216    |
| Customers' deposits                           | 26,606,761      | 2,521,020          | -                   | -            | -                 | 29,127,781 |

| SAR' 000                                      | 2012            |                    |                     |              |                   | Total      |
|---|-----------------|--------------------|---------------------|--------------|-------------------|------------|
|   | Within 3 Months | 3 months to 1 year | One year to 5 years | Over 5 Years | No fixed Maturity |            |
| Financial liabilities                         |                 |                    |                     |              |                   |            |
| Due to banks and other financial institutions | 570,921         | -                  | -                   | -            | -                 | 570,921    |
| Customers' deposits                           | 22,423,908      | 1,330,083          | -                   | -            | -                 | 23,753,991 |

### 33- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences may arise between carrying values and fair value estimates.

#### Determination of fair value and fair value hierarchy

The fair value of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- **Level 1:** quoted prices in active markets for the same instrument (i.e. without modification or repacking);
- **Level 2:** quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- **Level 3:** valuation techniques for which any significant input is not based on observable market data.

| 2013                                     |         |         |         |         |
|--|---------|---------|---------|---------|
| SAR' 000                                 | Level 1 | Level 2 | Level 3 | Total   |
| <b>Financial Assets</b>                  |         |         |         |         |
| Financial investments available for sale | 464,910 | -       | 150,000 | 614,910 |

| 2012                                     |         |         |         |         |
|--|---------|---------|---------|---------|
| SAR' 000                                 | Level 1 | Level 2 | Level 3 | Total   |
| <b>Financial Assets</b>                  |         |         |         |         |
| Financial investments available for sale | 286,721 | -       | 150,000 | 436,721 |

Level 3 investments comprise of unquoted available-for-sale investments that are carried at cost.

The fair values of financial instrument at consolidated statement of financial position date are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing, due from and due to banks and held to maturity investment which are carried at amortized cost are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

### 34- RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

#### a. Directors, and other major shareholders and their affiliates balances:

| SAR' 000                      | 2013      | 2012      |
|-------------------------------|-----------|-----------|
| Bei ajel                      | 1,455,432 | 1,399,819 |
| Musharaka                     | 17,529    | 74,759    |
| Commitments and contingencies | 12,334    | 34,826    |
| Demand                        | 43,508    | 23,598    |
| Saving                        | 9,320     | 651       |

Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital.

#### b. Bank's Mutual Funds:

These are the outstanding balances with Bank's mutual funds as of December 31:

| SAR' 000            | 2013   | 2012  |
|---------------------|--------|-------|
| Customers' deposits | 13,529 | 7,286 |

#### c. Related party income and expense:

The following is an analysis of the related party income and expenses included in the consolidated statement of income for the years ended December 31:

| SAR' 000  | 2013   | 2012   |
|---|--------|--------|
| Income from financing   | 44,110 | 48,936 |
| Income from commitments and contingencies   | 148    | 197    |
| Management fees (Albilad mutual funds)  | 14,758 | 13,082 |
| Rent  | 5,675  | 4,380  |
| Board of Directors' remunerations   | 5,266  | 3,729  |
| Compensations, remuneration and bonuses and end of service benefits to executive management members | 52,101 | 41,963 |

Executive management members are those who have the authority and responsibility, directly or indirectly, to plan, steer and control the Bank's activities.

### 35- CAPITAL ADEQUACY

The Group's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored by the Group's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets and commitments at a weighted amount to reflect their relative risk.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, are calculated under the Basel III framework. For the purposes of presentation, the RWAs, total capital and related ratios as at December 31, 2013 is calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios as at December 31, 2012 is calculated under Basel II and have not been restated.

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

|                                      | (Unaudited )     |                  |
|--------------------------------------|------------------|------------------|
|                                      | 2013<br>SAR' 000 | 2012<br>SAR' 000 |
| Credit Risk RWA                      | 28,053,891       | 22,005,550       |
| Operational Risk RWA                 | 3,142,572        | 2,629,094        |
| Market Risk RWA                      | 612,338          | 451,388          |
| Total Pillar-I RWA                   | 31,808,801       | 25,086,032       |
| Tier I Capital                       | 5,100,889        | 3,429,012        |
| Tier II Capital                      | 350,674          | 1,216,873        |
| <b>Total Tier I &amp; II Capital</b> | <b>5,451,563</b> | <b>4,645,885</b> |
| Capital Adequacy Ratio %             |                  |                  |
| Tier I ratio                         | 16.04%           | 13.67%           |
| Tier I + Tier II ratio               | 17.14%           | 18.52%           |

## 36- INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, Albilad Capital. These services include the management of six mutual funds (2012: six mutual funds) with assets totaling SAR 1,154 million (2012: SAR 979 million). All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Bank also manages private investment portfolios on behalf of its customers amount to SAR 8,234 million (2012: SAR 5,341 million). The financial statements of these funds and private portfolios are not included in the financial statements of the Bank. However, the transactions between the Bank and the funds are disclosed under related party transactions (see Note 34).

## 37- PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning after 1 January 2014 and is currently assessing their impact.

**a. IFRS 9 Financial instruments (2010):** revised version of IFRS 9 applicable from 1 January 2015. This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

**b. IFRS 10 Consolidated financial statements:** IFRS 10 amendment that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

**c. IAS 32 amendment:** applicable from 1 January 2014 clarify that **a)** an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and **b)** gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

**d. IAS 36 amendment:** applicable from 1 January 2014 address the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal.

### 38- Employee share plan (ESP)

Significant features of the share based payment plan is as follows:

|  | 2013                           | 2012                           |
|--|--------------------------------|--------------------------------|
| Grant date                                       | 4 September 2013               | 12 May 2012                    |
| Maturity Date                                    | 1 January 2016                 | 1 January 2015                 |
| Number of share offered on the grant date        | 251,300                        | 426,187                        |
| Share price on the grant date (SAR)              | 31.80                          | 28.20                          |
| Value of shares offered on grant date (SAR' 000) | 7,991                          | 9,013                          |
| Vesting period                                   | 3 years                        | 3 years                        |
| Vesting condition                                | Employees to remain in service | Employees to remain in service |
| Method of settlement                             | Equity                         | Equity                         |

| The movement in the number of shares is as follows | 2013    | 2012    |
|--|---------|---------|
| Beginning of the year                              | 583,407 | 212,020 |
| Granted during the year                            | 251,300 | 426,187 |
| Forfeited  | 53,070  | 54,800  |
| Exercised  | -       | -       |
| End of the year                                    | 781,637 | 583,407 |

The shares are granted only under a service condition with no market condition associated with them.

### 39- COMPARATIVE FIGURES

Prior year's figures have been reclassified to conform to the current year presentation.

### 40- BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Bank's Board of Directors on 9 Rabi' Al-Akher 1435H (corresponding to 9 February, 2014).

### 41- BASEL III - CAPITAL STRUCTURE

Certain disclosures on the Bank's capital structure are required to be published on Bank's website. These disclosures will be published on the Bank's website ([www.bankalbilad.com](http://www.bankalbilad.com)) as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank.

### 42- BASEL III PILLAR 3 DISCLOSURES

Under Basel III pillar 3, Certain additional quantitative and qualitative disclosures are required and these disclosures will be made available to the public on the Bank's website ([www.bankalbilad.com](http://www.bankalbilad.com)) and the annual report as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.





# Basel III Quantitative Disclosures

## Table 2: Capital Structure

Balance sheet - Step 1  
(Table 2(b))

As At 31st December 2013

All figures are in SAR'000

|  | Balance sheet in<br>Published financial<br>statements | Adjustment of<br>banking associates<br>other entities | Under regulatory<br>scope of<br>consolidation |
|--|---|---|---|
|  | (C)   | (D)   | (E)   |
| <b>Assets</b>  |   |   |   |
| Cash and balances at central banks                   | 4,186,998   | -   | 4,186,998                                     |
| Due from banks and other financial institutions      | 6,155,497   | -   | 6,155,497                                     |
| Investments, net                                     | 1,667,069   | -   | 1,667,069                                     |
| Financing, net                                       | 23,415,423  | -   | 23,415,423                                    |
| Debt securities                                      | -   | -   | -   |
| Trading assets                                       | -   | -   | -   |
| Investment in associates                             | -   | -   | -   |
| Derivatives  | -   | -   | -   |
| Goodwill   | -   | -   | -   |
| Other intangible assets                              | -   | -   | -   |
| Property and equipment, net                          | 762,204   | -   | 762,204                                       |
| Other assets   | 136,117   | -   | 136,117                                       |
| <b>Total assets</b>                                  | <b>36,323,308</b>                                     | <b>-</b>  | <b>36,323,308</b>                             |
| <b>Liabilities</b>                                   |   |   |   |
| Due to Banks and other financial institutions        | 975,616   | -   | 975,616                                       |
| Items in the course of collection due to other banks | -   | -   | -   |
| Customer deposits                                    | 29,107,718  | -   | 29,107,718                                    |
| Trading liabilities                                  | -   | -   | -   |
| Debt securities in issue                             | -   | -   | -   |
| Derivatives  | -   | -   | -   |
| Retirement benefit liabilities                       | -   | -   | -   |
| Taxation liabilities                                 | -   | -   | -   |
| Accruals and deferred income                         | -   | -   | -   |
| Borrowings   | -   | -   | -   |
| Other liabilities                                    | 1,139,085   | -   | 1,139,085                                     |
| <b>Subtotal</b>                                      | <b>31,222,419</b>                                     | <b>-</b>  | <b>31,222,419</b>                             |
| Paid up share capital                                | 4,000,000   | -   | 4,000,000                                     |
| Statutory reserves                                   | 552,396   | -   | 552,396                                       |
| Other reserves                                       | 958   | -   | 958   |
| Retained earnings                                    | 547,535   | -   | 547,535                                       |
| Minority Interest                                    | -   | -   | -   |
| Proposed dividends                                   | -   | -   | -   |
| <b>Total liabilities and equity</b>                  | <b>36,323,308</b>                                     | <b>-</b>  | <b>36,323,308</b>                             |

## Table 2: Capital Structure

Balance Sheet: Step 2  
(Table 2(C))

As At 31st December 2013

All figures are in SAR'000

|  | Balance sheet in Published<br>financial statements | Adjustment of<br>banking associates /<br>other entities | Under regulatory scope<br>of consolidation |
|--|--|---|--|
|  | (C)  | (D)   | (E)  |
| <b>Assets</b>  |  |   |  |
| Cash and balances at central banks                   | 4,186,998  | -   | 4,186,998                                  |
| Due from banks and other financial institutions      | 6,155,497  | -   | 6,155,497                                  |
| Investments, net                                     | 1,667,069  | -   | 1,667,069                                  |
| Financing, net                                       | 23,415,423   | -   | 23,415,423                                 |
| of which Collective provisions                       | 477,376  | -   | 477,376                                    |
| Debt securities                                      | -  | -   | -  |
| Equity shares  | -  | -   | -  |
| Investment in associates                             | -  | -   | -  |
| Derivatives  | -  | -   | -  |
| Goodwill   | -  | -   | -  |
| Other intangible assets                              | -  | -   | -  |
| Property and equipment, net                          | 762,204  | -   | 762,204                                    |
| Other assets   | 136,117  | -   | 136,117                                    |
| <b>Total assets</b>                                  | <b>36,323,308</b>                                  | <b>-</b>  | <b>36,323,308</b>                          |
| <b>Liabilities</b>                                   |  |   |  |
| Due to Banks and other financial institutions        | 975,616  | -   | 975,616                                    |
| Items in the course of collection due to other banks | -  | -   | -  |
| Customer deposits                                    | 29,107,718   | -   | 29,107,718                                 |
| Trading liabilities                                  | -  | -   | -  |
| Debt securities in issue                             | -  | -   | -  |
| of which Tier 2 capital instruments                  | -  | -   | -  |
| Derivatives  | -  | -   | -  |
| Retirement benefit liabilities                       | -  | -   | -  |
| Taxation liabilities                                 | -  | -   | -  |
| Accruals and deferred income                         | -  | -   | -  |
| Borrowings   | -  | -   | -  |
| Other liabilities                                    | 1,139,085  | -   | 1,139,085                                  |
| <b>Subtotal</b>                                      | <b>31,222,419</b>                                  | <b>-</b>  | <b>31,222,419</b>                          |
| Paid up share capital                                | 4,000,000  | -   | 4,000,000                                  |
| of which amount eligible for CET1                    | 4,000,000  | -   | 4,000,000                                  |
| of which amount eligible for AT1                     | -  | -   | -  |
| Statutory reserves                                   | 552,396  | -   | 552,396                                    |
| Other reserves                                       | 958  | -   | 958  |
| Retained earnings                                    | 547,535  | -   | 547,535                                    |
| Minority Interest                                    | -  | -   | -  |
| Proposed dividends                                   | -  | -   | -  |
| <b>Total liabilities and equity</b>                  | <b>36,323,308</b>                                  | <b>-</b>  | <b>36,323,308</b>                          |

## Table 2: Capital Structure

Common Template  
(Transition) Step 3  
(Table 2(D)) i

From January 2013 To 2018 Identical  
To Post 2018. With Amount Subject  
To Pre- Basel III Treatment

As At 31st December 2013

All figures are in SAR'000

| Common Equity Tier 1 capital: Instruments and reserves |   |           |
|--|---|-----------|
| 1  | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 4,000,000 |
| 2  | Retained earnings   | 729,827   |
| 3  | Accumulated other comprehensive income (and other reserves)   | 371,062   |
| 6  | Common Equity Tier 1 capital before regulatory adjustments  | 5,100,889 |
| Common Equity Tier 1 capital: Regulatory adjustments   |   |           |
| 28   | Total regulatory adjustments to Common equity Tier 1  | -         |
| 29   | Common Equity Tier 1 capital (CET1)   | 5,100,889 |
| 45   | Tier 1 capital (T1 = CET1 + AT1)  | 5,100,889 |

## Table 2: Capital Structure

Common Template  
(Transition) Step 3  
(Table 2(D)) ii

From January 2013 To 2018 Identical  
To Post 2018. With Amount Subject  
To Pre- Basel III Treatment

As At 31st December 2013

All figures are in SAR'000

| Tier 2 capital: instruments and provisions |  |            |
|--|--|------------|
| 50   | Provisions   | 350,674    |
| 51   | Tier 2 capital before regulatory adjustments   | 350,674    |
| Tier 2 capital: regulatory adjustments     |  |            |
| 58   | Tier 2 capital (T2)  | 350,674    |
| 59   | Total capital (TC = T1 + T2)   | 5,451,563  |
| 60   | Total risk weighted assets   | 31,808,801 |
| Capital ratios                             |  |            |
| 61   | Common Equity Tier 1 (as a percentage of risk weighted assets)   | 16.04%     |
| 62   | Tier 1 (as a percentage of risk weighted assets)   | 16.04%     |
| 63   | Total capital (as a percentage of risk weighted assets)  | 17.14%     |
| 64   | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets) | 7.0%       |
| 68   | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)   | 9.04%      |

# Table 3: Capital Adequacy

| As At 31st December 2013                      |                     | All figures are in SAR'000 |           |
|---|---------------------|----------------------------|-----------|
| Portfolios                                    | Amount of exposures | Capital requirements       |           |
| Sovereigns and central banks                  |                     |                            |           |
| SAMA and Saudi Government                     | 2,577,201           |                            |           |
| Others  | -                   |                            | -         |
| Multilateral Development Banks (MDBs)         | -                   |                            | -         |
| Public Sector Entities (PSEs)                 | -                   |                            | -         |
| Banks and securities firms                    | 5,889,294           |                            | 133,144   |
| Corporates                                    | 11,385,134          |                            | 910,811   |
| Retail non-mortgages                          | 8,026,286           |                            | 481,577   |
| Small Business Facilities Enterprises (SBFEs) | 61,573              |                            | 3,694     |
| Mortgages                                     |                     |                            |           |
| Residential                                   | 1,460,599           |                            | 116,848   |
| Commercial                                    | 3,174,273           |                            | 253,942   |
| Securitized assets                            | -                   |                            | -         |
| Equity  | 1,409,069           |                            | 28,553    |
| Others  | 2,817,255           |                            | 75,301    |
| Total   | 36,800,684          |                            | 2,003,870 |

| As At 31st December 2013     |                    | All figures are in SAR'000 |                       |                |        |
|------------------------------|--------------------|----------------------------|-----------------------|----------------|--------|
|                              | Interest rate risk | Equity position risk       | Foreign exchange risk | Commodity risk | Total  |
| <b>Standardised approach</b> | -                  | -                          | 48,987                | -              | 48,987 |

| As At 31st December 2013                                  |  | All figures are in SAR'000 |
|---|--|----------------------------|
| Capital Requirements for Operational Risk* (Table 3, (e)) |  |                            |
| Particulars   |  | Capital requirement        |
| Basic indicator approach                                  |  | 251,406                    |

| As At 31st December 2013      |                     | All figures are in SAR'000 |  |
|-------------------------------|---------------------|----------------------------|--|
| Particulars                   | Total capital ratio | Tier 1 capital ratio       |  |
| <b>Top consolidated level</b> | <b>17.14 %</b>      | <b>16.04 %</b>             |  |

**Table 4 (STA):**  
**Credit Risk:**  
General Disclosures

| As At 31st December 2013                      |                                  | All figures are in SAR'000                         |
|---|----------------------------------|--|
| Portfolios                                    | Total gross credit risk exposure | Average gross credit risk exposure over the period |
| <b>Sovereigns and central banks</b>           |                                  |  |
| SAMA and Saudi Government                     | 2,577,201                        | 2,071,195  |
| Others  | -                                | -  |
| Multilateral Development Banks (MDBs)         | -                                | -  |
| Public Sector Entities (PSEs)                 | -                                | -  |
| Banks and securities firms                    | 6,070,674                        | 6,225,281  |
| Corporates                                    | 14,284,358                       | 12,069,853   |
| Retail non-mortgages                          | 8,026,286                        | 7,326,966  |
| Small Business Facilities Enterprises (SBFEs) | 87,992                           | 77,698   |
| <b>Mortgages</b>                              |                                  |  |
| Residential                                   | 1,460,599                        | 1,489,383  |
| Commercial                                    | 3,174,273                        | 3,338,711  |
| Securitized assets                            | -                                | -  |
| Equity  | 1,409,069                        | 1,947,598  |
| Others  | 2,817,255                        | 2,490,773  |
| <b>Total</b>                                  | <b>39,907,707</b>                | <b>37,037,459</b>                                  |

# Table 4 (STA): Credit Risk:

## General Disclosures

As At 31st December 2013

All figures are in SAR'000

| Portfolios                                    | Geographic area |                         |        |               |                 |                  | Total      |
|---|-----------------|-------------------------|--------|---------------|-----------------|------------------|------------|
|   | Saudi Arabia    | Other GCC & Middle East | Europe | North America | South East Asia | Others countries |            |
| Sovereigns and central banks                  |                 |                         |        |               |                 |                  |            |
| SAMA and Saudi Government                     | 2,577,201       | -                       | -      | -             | -               | -                | 2,577,201  |
| Others  | -               | -                       | -      | -             | -               | -                | -          |
| Multilateral Development Banks (MDBs)         | -               | -                       | -      | -             | -               | -                | -          |
| Public Sector Entities (PSEs)                 | -               | -                       | -      | -             | -               | -                | -          |
| Banks and securities firms                    | 4,173,333       | 1,897,341               | -      | -             | -               | -                | 6,070,674  |
| Corporates                                    | 14,284,358      | -                       | -      | -             | -               | -                | 14,284,358 |
| Retail non-mortgages                          | 8,026,286       | -                       | -      | -             | -               | -                | 8,026,286  |
| Small Business Facilities Enterprises (SBFEs) | 87,992          | -                       | -      | -             | -               | -                | 87,992     |
| Mortgages                                     |                 |                         |        |               |                 |                  |            |
| Residential                                   | 1,460,599       | -                       | -      | -             | -               | -                | 1,460,599  |
| Commercial                                    | 3,174,273       | -                       | -      | -             | -               | -                | 3,174,273  |
| Securitized assets                            | -               | -                       | -      | -             | -               | -                | -          |
| Equity  | 1,409,069       | -                       | -      | -             | -               | -                | 1,409,069  |
| Others  | 2,551,051       | 51,599                  | 93,031 | 60,238        | 32,483          | 28,853           | 2,817,254  |
| Total   | 37,744,162      | 1,948,940               | 93,031 | 60,238        | 32,483          | 28,853           | 39,907,707 |



# Table 4 (STA): Credit Risk:

## General Disclosures

| As At 31st December 2013                      |                                 |  |                         |               |                      |   |                           |           |                                  |           |                                 |           | All figures are in SAR'000 |  |
|---|---------------------------------|--|-------------------------|---------------|----------------------|---|---------------------------|-----------|----------------------------------|-----------|---------------------------------|-----------|----------------------------|--|
| Portfolios                                    | Industry sector                 |  |                         |               |                      |   |                           |           |                                  |           |                                 |           | Total                      |  |
|   | Government and quasi government | Banks and other financial institutions | Agriculture and fishing | Manufacturing | Mining and quarrying | Electricity, water, gas and health services | Building and construction | Commerce  | Transportation and communication | Services  | Consumer loans and credit cards | Others    |                            |  |
| Sovereigns and central banks                  |                                 |  |                         |               |                      |   |                           |           |                                  |           |                                 |           |                            |  |
| SAMA and Saudi Government                     | 2,577,201                       | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | -                               | -         | 2,577,201                  |  |
| Others  | -                               | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | -                               | -         | -                          |  |
| Multilateral Development Banks (MDBs)         | -                               | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | -                               | -         | -                          |  |
| Public Sector Entities (PSEs)                 | -                               | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | -                               | -         | -                          |  |
| Banks and securities firms                    | -                               | 6,070,674                              | -                       | -             | -                    | -   | -                         | -         | -                                | -         | -                               | -         | 6,070,674                  |  |
| Corporates                                    | -                               | -                                      | 672,064                 | 3,438,727     | 637,500              | -   | 1,434,325                 | 3,630,130 | 378,455                          | 1,825,419 | -                               | 2,267,738 | 14,284,358                 |  |
| Retail non-mortgages                          | -                               | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | 8,026,286                       | -         | 8,026,286                  |  |
| Small Business Facilities Enterprises (SBFEs) | -                               | -                                      | -                       | 11,033        | -                    | -   | 17,131                    | 21,029    | 1,250                            | 16,959    | -                               | 20,590    | 87,992                     |  |
| Mortgages                                     |                                 |  |                         |               |                      |   |                           |           |                                  |           |                                 |           |                            |  |
| Residential                                   | -                               | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | 1,460,599                       | -         | 1,460,599                  |  |
| Commercial                                    | -                               | -                                      | -                       | -             | -                    | -   | 3,174,273                 | -         | -                                | -         | -                               | -         | 3,174,273                  |  |
| Securitized assets                            | -                               | -                                      | -                       | -             | -                    | -   | -                         | -         | -                                | -         | -                               | -         | -                          |  |
| Equity  | 1,052,159                       | 26,152                                 | 21,942                  | 69,040        | 6,217                | -   | 15,205                    | -         | 33,166                           | 13,379    | -                               | 171,809   | 1,409,069                  |  |
| Others  | -                               | -                                      | -                       | -             | -                    | -   | 4,968                     | -         | -                                | -         | 37,966                          | 2,774,321 | 2,817,255                  |  |
| Total   | 3,629,360                       | 6,096,826                              | 694,006                 | 3,518,800     | 643,717              | -   | 4,645,902                 | 3,651,159 | 412,871                          | 1,855,757 | 9,524,851                       | 5,234,458 | 39,907,707                 |  |

Table 4 (STA):  
Credit Risk:  
General Disclosures

| As At 31st December 2013                      |                    |           |            |             |              |           |           |             |              | All figures are in SAR'000 |
|---|--------------------|-----------|------------|-------------|--------------|-----------|-----------|-------------|--------------|----------------------------|
| Portfolios                                    | Maturity breakdown |           |            |             |              |           |           |             |              |                            |
|   | Less than 8 days   | 8-30 days | 30-90 days | 90-180 days | 180-360 days | 1-3 years | 3-5 years | No Maturity | Over 5 years | Total                      |
| Sovereigns and central banks                  |                    |           |            |             |              |           |           |             |              |                            |
| SAMA and Saudi Government                     | 800,484            | 1,776,717 | -          | -           | -            | -         | -         | -           | -            | 2,577,201                  |
| Others  | -                  | -         | -          | -           | -            | -         | -         | -           | -            | -                          |
| Multilateral Development Banks (MDBs)         | -                  | -         | -          | -           | -            | -         | -         | -           | -            | -                          |
| Public Sector Entities (PSEs)                 | -                  | -         | -          | -           | -            | -         | -         | -           | -            | -                          |
| Banks and securities firms                    | 1,100,649          | 3,458,715 | 797,639    | 512,627     | 201,044      | -         | -         | -           | -            | 6,070,674                  |
| Corporates                                    | 537,965            | 1,018,180 | 2,837,735  | 3,387,653   | 3,568,738    | 1,240,513 | 1,164,891 | -           | 528,683      | 14,284,358                 |
| Retail non-mortgages                          | 3,362              | 163,816   | 391,358    | 536,873     | 1,063,687    | 3,930,661 | 1,930,693 | 249         | 5,587        | 8,026,286                  |
| Small Business Facilities Enterprises (SBFEs) | 1,798              | 2,488     | 11,780     | 9,084       | 11,384       | 31,824    | 13,584    | -           | 6,050        | 87,992                     |
| Mortgages                                     |                    |           |            |             |              |           |           |             |              |                            |
| Residential                                   | 378                | 12,281    | 24,991     | 37,629      | 75,235       | 319,166   | 324,501   | -           | 666,418      | 1,460,599                  |
| Commercial                                    | 20,724             | 283,563   | 886,041    | 507,853     | 1,032,711    | 214,059   | 58,184    | -           | 171,138      | 3,174,273                  |
| Securitized assets                            | -                  | -         | -          | -           | -            | -         | -         | -           | -            | -                          |
| Equity  | 757,696            | 400,723   | 250,650    | -           | -            | -         | -         | -           | -            | 1,409,069                  |
| Others  | 1,876,001          | -         | -          | -           | -            | -         | -         | 941,254     | -            | 2,817,255                  |
| Total   | 5,099,057          | 7,116,483 | 5,200,194  | 4,991,719   | 5,952,799    | 5,736,223 | 3,491,853 | 941,503     | 1,377,876    | 39,907,707                 |

Table 4 (STA):  
Credit Risk:

General Disclosures

| As At 31st December 2013                                     |                |                                   |           |                                |        |         |          |                           |                               |                                  | All figures are in SAR'000 |
|--|----------------|-----------------------------------|-----------|--------------------------------|--------|---------|----------|---------------------------|-------------------------------|----------------------------------|----------------------------|
| Impaired Loans, Past Due Loans and Allowances (Table 4, (f)) |                |                                   |           |                                |        |         |          |                           |                               |                                  |                            |
| Industry sector  | Impaired loans | Past Due (>90 days), not impaired | Defaulted | Aging of Past Due Loans (days) |        |         |          | Specific allowances       |                               |                                  | General allowances         |
|  |                |                                   |           | Less than 90                   | 90-180 | 180-360 | Over 360 | Charges during the period | Charge-offs during the period | Balance at the end of the period |                            |
| Government and quasi government                              | -              | -                                 | -         | -                              | -      | -       | -        | -                         | -                             | -                                | -                          |
| Banks and other financial institutions                       | -              | -                                 | -         | -                              | -      | -       | -        | -                         | -                             | -                                | -                          |
| Agriculture and fishing                                      | -              | -                                 | -         | -                              | -      | -       | -        | -                         | -                             | -                                | 19,315                     |
| Manufacturing  | 2,811          | -                                 | 2,811     | 34,816                         | -      | -       | 2,811    | (4,802)                   | (300,746)                     | 2,815                            | 80,300                     |
| Mining and quarrying   | -              | -                                 | -         | -                              | -      | -       | -        | -                         | -                             | -                                | -                          |
| Electricity, water, gas and health services                  | -              | -                                 | -         | -                              | -      | -       | -        | -                         | -                             | -                                | -                          |
| Building and construction                                    | 61,953         | -                                 | 61,852    | 4,697                          | 502    | -       | 61,350   | 31,184                    | -                             | 57,237                           | 102,534                    |
| Commerce   | 73,387         | -                                 | 73,387    | -                              | -      | -       | 73,387   | 13,109                    | (19,730)                      | 73,453                           | 92,710                     |
| Transportation and communication                             | -              | -                                 | -         | -                              | -      | -       | -        | -                         | -                             | -                                | 8,899                      |
| Services   | 8,981          | -                                 | 716       | 8,265                          | -      | 236     | 480      | 8,145                     | (52,615)                      | 8,660                            | 42,856                     |
| Consumer loans and credit cards                              | 122,945        | -                                 | 122,945   | 199,790                        | 25,745 | 33,053  | 64,147   | 36,392                    | -                             | 84,978                           | 63,262                     |
| Others   | 190,791        | -                                 | 190,791   | -                              | -      | -       | 190,791  | 12,499                    | -                             | 190,791                          | 67,502                     |
| Total  | 460,868        | -                                 | 452,502   | 247,568                        | 26,247 | 33,289  | 392,966  | 96,527                    | (373,091)                     | 417,934                          | 477,378                    |

# Table 4 (STA): Credit Risk: General Disclosures

As At 31st December 2013

All figures are in SAR'000

| Geographic area         | Impaired Loans, Past Due Loans And Allowances (Table 4, (g)) |                                |               |               |                |                     |                    |
|-------------------------|--|--------------------------------|---------------|---------------|----------------|---------------------|--------------------|
|                         | Impaired loans   | Aging of Past Due Loans (days) |               |               |                | Specific allowances | General allowances |
|                         |  | Less than 90                   | 90-180        | 180-360       | Over 360       |                     |                    |
| Saudi Arabia            | 460,868  | 247,568                        | 26,247        | 33,289        | 392,966        | 417,934             | 477,378            |
| Other GCC & Middle East | -  | -                              | -             | -             | -              | -                   | -                  |
| Europe                  | -  | -                              | -             | -             | -              | -                   | -                  |
| North America           | -  | -                              | -             | -             | -              | -                   | -                  |
| South East Asia         | -  | -                              | -             | -             | -              | -                   | -                  |
| Others countries        | -  | -                              | -             | -             | -              | -                   | -                  |
| <b>Total</b>            | <b>460,868</b>   | <b>247,568</b>                 | <b>26,247</b> | <b>33,289</b> | <b>392,966</b> | <b>417,934</b>      | <b>477,378</b>     |

As At 31st December 2013

All figures are in SAR'000

| Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h)) |                     |                    |
|--|---------------------|--------------------|
| Particulars  | Specific allowances | General allowances |
| Balance, beginning of the year   | 694,499             | 399,520            |
| Charge-offs taken against the allowances during the period                     | (373,995)           | -                  |
| Amounts set aside (or reversed) during the period                              | 118,222             | 57,065             |
| Transfers between allowances   | (20,791)            | 20,791             |
| <b>Balance, end of the year</b>  | <b>417,935</b>      | <b>477,376</b>     |

Table 5 (STA):  
Credit Risk:

Disclosures For Portfolios  
Subject To The Standardized  
Approach

| As At 31st December 2013                       |              |           |     |           |           |            |       |                    |         | All figures are in SAR'000 |   |
|--|--------------|-----------|-----|-----------|-----------|------------|-------|--------------------|---------|----------------------------|---|
| Particulars                                    | Risk buckets |           |     |           |           |            |       |                    |         | Deducted                   |   |
|  | 0%           | 20%       | 35% | 50%       | 75%       | 100%       | 150%  | Other risk weights | Unrated |                            |   |
| Sovereigns and central banks                   |              |           |     |           |           |            |       |                    |         |                            |   |
| SAMA and Saudi Government                      | 2,577,201    | -         | -   | -         | -         | -          | -     | -                  | -       | -                          | - |
| Others   | -            | -         | -   | -         | -         | -          | -     | -                  | -       | -                          | - |
| Multilateral Development Banks (MDBs)          | -            | -         | -   | -         | -         | -          | -     | -                  | -       | -                          | - |
| Public Sector Entities (PSEs)                  | -            | -         | -   | -         | -         | -          | -     | -                  | -       | -                          | - |
| Banks and securities firms                     | -            | 4,295,543 | -   | 1,771,016 | -         | -          | 4,114 | -                  | -       | -                          | - |
| Corporates                                     | -            | -         | -   | -         | -         | 14,284,358 | -     | -                  | -       | -                          | - |
| Retail non-mortgages                           | -            | -         | -   | -         | 8,026,286 | -          | -     | -                  | -       | -                          | - |
| Small Business Facilities Enterprises (SBFE>s) | -            | -         | -   | -         | 87,992    | -          | -     | -                  | -       | -                          | - |
| Mortgages                                      |              |           |     |           |           |            |       |                    |         |                            |   |
| Residential                                    | -            | -         | -   | -         | -         | 1,460,599  | -     | -                  | -       | -                          | - |
| Commercial                                     | -            | -         | -   | -         | -         | 3,174,273  | -     | -                  | -       | -                          | - |
| Securitized assets                             | -            | -         | -   | -         | -         | -          | -     | -                  | -       | -                          | - |
| Equity   | 1,052,159    | -         | -   | -         | -         | 356,910    | -     | -                  | -       | -                          | - |
| Others   | 1,876,001    | -         | -   | -         | -         | 941,254    | -     | -                  | -       | -                          | - |
| Total  | 5,505,361    | 4,295,543 | -   | 1,771,016 | 8,114,278 | 20,217,394 | 4,114 |                    |         |                            |   |

# Table 7 (STA): Credit Risk Mitigation (CRM):

Disclosures For Standardized  
Approach

| As At 31st December 2013                      |                                 | All figures are in SAR'000        |  |
|---|---------------------------------|-----------------------------------|--|
| Portfolios                                    | Covered by                      |                                   |  |
|   | Eligible financial collateral * | Guarantees / credit derivatives * |  |
| Sovereigns and central banks                  |                                 |                                   |  |
| SAMA and Saudi Government                     | -                               | -                                 |  |
| Others  | -                               | -                                 |  |
| Multilateral Development Banks (MDBs)         | -                               | -                                 |  |
| Public Sector Entities (PSEs)                 | -                               | -                                 |  |
| Banks and securities firms                    | -                               | -                                 |  |
| Corporates                                    | 459,273                         | -                                 |  |
| Retail non-mortgages                          | -                               | -                                 |  |
| Small Business Facilities Enterprises (SBFEs) | 168,835                         | -                                 |  |
| Mortgages                                     |                                 |                                   |  |
| Residential                                   | -                               | -                                 |  |
| Commercial                                    | -                               | -                                 |  |
| Securitized assets                            | -                               | -                                 |  |
| Equity  | -                               | -                                 |  |
| Others  | -                               | -                                 |  |
| Total   | 628,108                         |                                   |  |

# Table 10: Market Risk:

Disclosures For Banks Using  
The Standardized Approach

| As At 31st December 2013    |                    | All figures are in SAR'000 |                       |                |        |
|-----------------------------|--------------------|----------------------------|-----------------------|----------------|--------|
|                             | Interest rate risk | Equity position risk       | Foreign exchange risk | Commodity risk | Total  |
| <b>Capital requirements</b> | -                  | -                          | 48,987                | -              | 48,987 |

Table 13: Equities:

Disclosures For Banking Book Positions

| As At 31st December 2013 |   | All figures are in SAR'000 |   |            |
|--------------------------|---|----------------------------|---|------------|
|                          | Un-quoted investments                   |                            | Quoted investments                      |            |
|                          | Value disclosed in Financial Statements | Fair value                 | Value disclosed in Financial Statements | Fair value |
| Investments              | 150,000                                 | 150,000                    | 206,910                                 | 206,910    |

| As At 31st December 2013                    |  | All figures are in SAR'000 |                |
|---|--|----------------------------|----------------|
| Investments                                 |  | Publicly traded            | Privately held |
| Government and quasi government             |  | -                          | -              |
| Banks and other financial institutions      |  | 26,152                     | -              |
| Agriculture and fishing                     |  | 21,942                     | -              |
| Manufacturing                               |  | 69,040                     | -              |
| Mining and quarrying                        |  | 6,217                      | -              |
| Electricity, water, gas and health services |  | -                          | -              |
| Building and construction                   |  | 15,205                     | -              |
| Commerce                                    |  | -                          | -              |
| Transportation and communication            |  | 33,166                     | -              |
| Services                                    |  | 13,379                     | -              |
| Others                                      |  | 21,809                     | 150,000        |
| Total                                       |  | 206,910                    | 150,000        |

| As At 31st December 2013   |  | All figures are in SAR'000 |  |
|--|--|----------------------------|--|
| Particulars  |  | Amount                     |  |
| Cumulative realized gains (losses) arising from sales and liquidations in the reporting period |  | -                          |  |
| Total unrealized gains (losses)  |  | 28,272                     |  |
| Total latent revaluation gains (losses)*   |  | -                          |  |
| Unrealized gains (losses) included in Capital  |  | -                          |  |
| Latent revaluation gains (losses) included in Capital*   |  | -                          |  |



## Table 13: Equities:

Disclosures For Banking Book Positions

As At 31st December 2013

All figures are in SAR'000

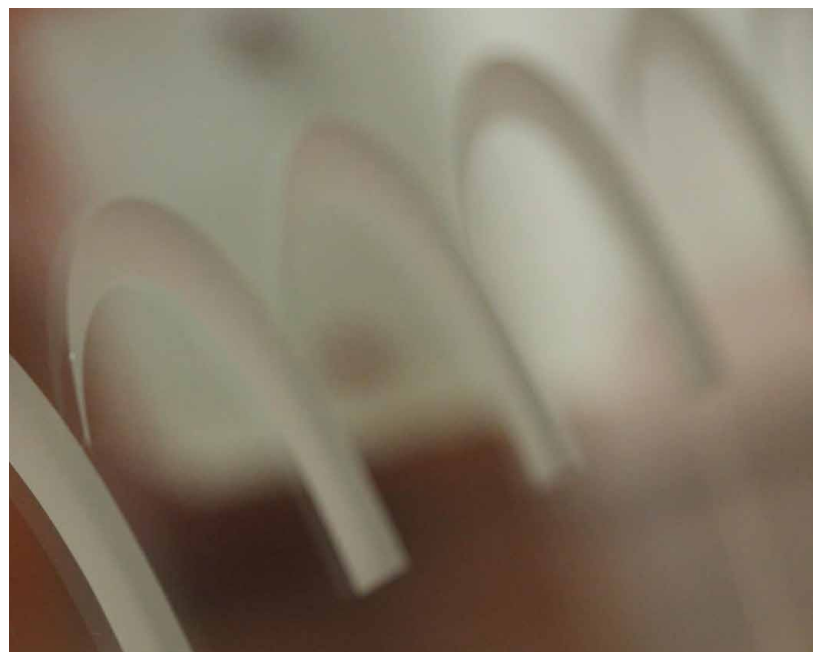
| Equity grouping                             | Capital requirements |
|---|----------------------|
| Government and quasi government             | -                    |
| Banks and other financial institutions      | 2,092                |
| Agriculture and fishing                     | 1,755                |
| Manufacturing                               | 5,523                |
| Mining and quarrying                        | 497                  |
| Electricity, water, gas and health services | -                    |
| Building and construction                   | 1,216                |
| Commerce                                    | -                    |
| Transportation and communication            | 2,653                |
| Services                                    | 1,070                |
| Others                                      | 13,745               |
| <b>Total</b>                                | <b>28,551</b>        |

## Table 14: Interest Rate Risk in the Banking Book (IRRBB)

As At 31st December 2013

All figures are in SAR'000

| 200 bp interest rate shocks for currencies with more than 5 % of Assets or Liabilities |                   |
|--|-------------------|
| Rate Shocks  | Change in earning |
| Upward rate shocks   | (4,256,192)       |
| Downward rate shocks   | (9,387,219)       |



# Basel III Qualitative Disclosures

Table (1) Scope of Application

a) Scope

These qualitative disclosures sets out Bank Albilad approach to Capital assessment.

b) Basis of Consolidation

For accounting purposes all entities where control exists, are consolidated in the Group financial statements.

Entities (within the Group) fully consolidated:

1. Albilad Capital:

Albilad Capital is incorporated in Kingdom of Saudi Arabia as Saudi Limited Liability Company since 2007 and is involved in dealing, managing, arranging, advising and custody of securities. Currently, the Bank owns 100% of the ordinary share capital of the company.

2. Albilad Real Estate Company:

Albilad Real Estate Company is incorporated in Kingdom of Saudi Arabia since 2006 and is involved in registering the real estate collaterals that the Bank obtains from its customers. Currently, the Bank owns 100% of the ordinary share capital of the company.

c) There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the Group.

Table (2) Capital Structure

Capital of the bank consists of the following instruments:

1. Eligible Paid-up Share Capital

Ordinary share capital of the Bank consists of 400,000,000 shares of SAR 10 each. All these shares carry equal voting rights and are not redeemable. These shares rank junior to all other capital instruments as other claims on the Bank.

2. Eligible Reserves

Eligible reserves are created by accumulated appropriations of profit and are maintained for future growth.

Table (3) Capital Adequacy

Basel III uses a three-pillar structure: calculation of minimum capital requirement (Pillar I), supervisory review process (Pillar II) and market discipline/disclosure (Pillar III):

As a general rule, the Basel Committee intends to maintain the current capital level in the banking sector, but some banks will undoubtedly enjoy a capital relief under these requirements. There are a number of different factors that may be beneficial for Bank Albilad under the capital adequacy rules:

- Good diversification of credit risk between countries, customer segments and industries.
- High and stable internal capital generation.
- Sound risk, capital and performance management.

The risk-weighted assets in Pillar I (according to Basel III guidelines) are calculated using the prescribed Standardized Approach for credit and market risks and the Basic Indicators Approach for operational risk. The Bank conducts a number of stress tests on semi-annual basis and during ICAAP to ensure that its capital is adequate also in unfavorable economic climate. During the tests, the Bank's risk portfolio is exposed to severe stress conditions.

Bank Albilad's ICAAP, which aims to ensure that the Group's capital supports business growth, stipulates that the Bank should maintain an excess cover relative to the statutory requirement.

Bank Albilad's capital management aims to ensure efficient use of capital to meet the Bank's overall capital targets.

During 2007, the Bank started working under the Basel III capital adequacy rules. Bank Albilad has chosen to adopt the standardized approach (for credit and market risks) and the basic indicator approach (for operational risk) to calculate the regulatory requirements of capital adequacy. In 2013, the Bank has adopted SAMA's guidelines in regard to the Framework of Basel III.

Bank Albilad's strategy is to complete implementation of the Basel III Advanced Approach. In addition, the evaluation exercise will help the bank determine the work that must be undertaken, the action plan and the deliverables required

during the implementation of Basel III guidelines under Advanced Approach for Credit, Market and Operational Risks.

This includes moving to Internal Rating Approach for credit risk and standardized approach for market risk and operational risk.

The Bank's risk profile complies with the capital targets and implies, among other things, that the Bank must have sufficient capital to cover both organic growth and current fluctuations in the Bank's exposure. The Board of Directors defines risk and capital targets, while the Asset & Liability Management Committee (ALCO) is responsible for ensuring that these targets are met.

The Risk Management Group set up in the Bank receives regular reports on developments in the Bank's balance sheet structure and balance sheet movements, including its capital deployment and risk appetite.

and practices in risk management. Bank Albilad uses substantial resources to develop procedures and tools that support this vision. Accordingly, the Bank has built up substantial expertise in risk and capital management.

Managing risk is a process operated independently of the business units of Bank Albilad. It aims to promote a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors and senior management are involved in the establishment of all risk processes and the periodic oversight and guidance of the risk management function. The processes are subject to additional scrutiny by independent Shariah Board as well as internal and external auditors, and the Bank's regulators, which help further strengthen the risk management practices.

## ICAAP

Bank Albilad's Internal Capital Adequacy Assessment Process (ICAAP) integrates the Group's risk profile, risk management framework with available and required capital. ICAAP has been formally established in Year 2008 with relevant roles and responsibilities to be assigned under Risk and Compliance Committee (RCC) and ALCO.

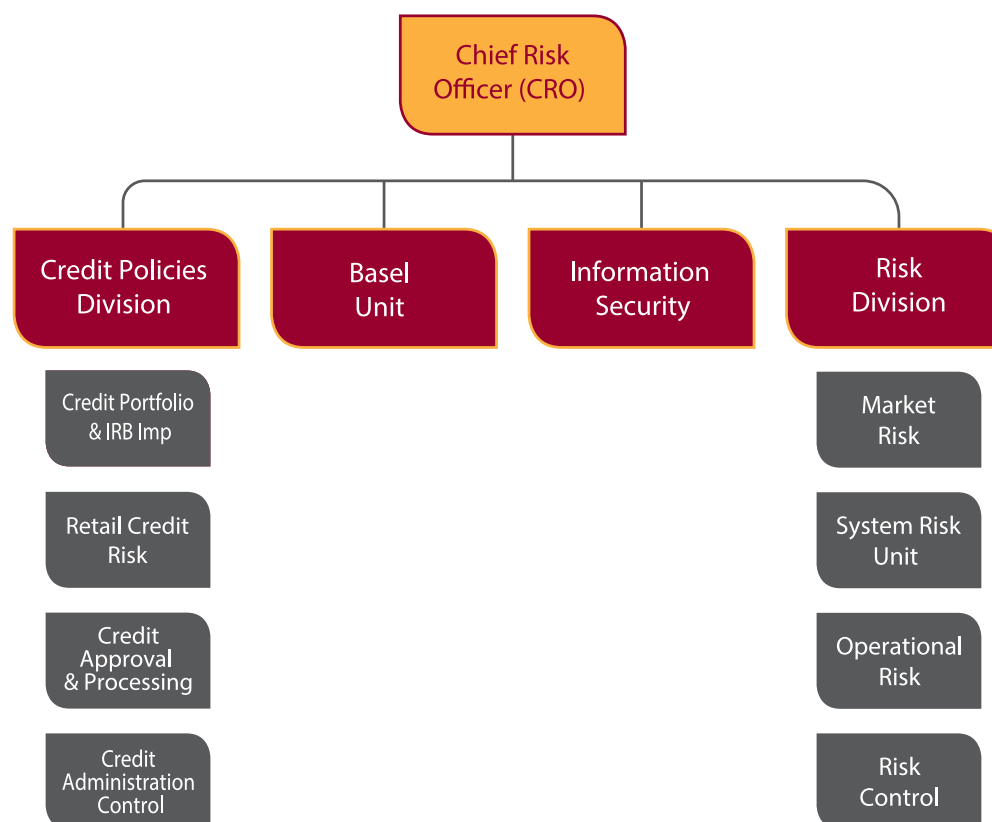
One of the aims of the ICAAP is to ensure that management adequately identifies and measures the Bank's risks. The process also checks that management takes steps to ensure that the Bank maintains sufficient internal capital relative to its risk profile and that it applies and develops proper risk management systems. Pursuant to regulatory requirements, SAMA will review and assess the Group's application of ICAAP and the quality of the in-house management procedures of which ICAAP forms part.

## Risk Exposure and Assessment - General Disclosures

A key component of Bank Albilad's business strategy is for risk management to support the objective of being a strong financial partner with insight and transparency in risk-taking.

The Bank's vision is to adopt best international standards

The Risk Management Group is organized in the structure as shown below.



Bank Albilad is exposed to various types of risk that are managed at different levels of the organization. The most important types of risk are as follows:

- **Credit risk:** The risk of losses because counterparties fail to meet all or part of their obligations.
- **Market risk:** The risk of losses because the market value of Bank Albilad's assets and liabilities will vary with changes in market conditions.
- **Liquidity risk:** The risk of losses which arises when a bank's normal liquidity reserves remain insufficient to meet its obligations.
- **Operational risk:** The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

Each individual risk type is defined in accordance with legislative and regulatory requirements.

The Group allocates considerable resources to ensuring the ongoing compliance with credit limits and to monitoring its credit portfolio. The Group has a fixed reporting cycle to ensure that the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed of developments in the credit portfolio, non-performing loans and the like.

## Table (4) Credit Risk – General Disclosures

Credit risk reflects the risk of losses because one or more counterparties fail to meet all or part of their contractual obligations. Credit risk makes up the largest part of Bank's risk exposures.

### Management of Credit Risk

The Bank measure and manage its credit risk by adhering to the following principles:

- Consistent standards are applied across the bank in the respective credit decision processes through the use of Moody's rating model for all corporate lending customers. On the other hand, retail scorecards are being implemented in addition to the use of SIMAH credit information for retail finance.
- The bank deployed customized scorecard and models for both i.e. SME and Corporate in Moody's system. In addition, we have also deployed Moody's Facility Risk Rating model which is under trial run in Moody's system.
- The approval of credit limits for counterparties and the management of its individual credit exposures must fit within the Bank's portfolio guidelines and its credit strategies, and each decision also involves a risk-versus-return analysis.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.
- Bank currently assigns credit approval authorities based on dual sign-off system by business and risk up to a certain level, beyond which the proposals are referred to Credit Committee's, Executive Committee and finally Board for approval according to their respective approval authority.

### Strategies

#### The aims of credit risk management are:

- To maintain a strong culture of responsible lending, supported by a robust risk policy and control framework.
- To challenge business originators effectively in defining and implementing risk appetite.
- To ensure independent, expert scrutiny and approval of credit risks and their mitigation.

#### Major types of Credit Risk:

Credit risk includes concentration, settlement risk.

- **Credit Concentration Risk:** is a risk in any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations. Risk concentrations are arguably the single most important cause of major problems in banks.
- **Settlement Risk:** is the risk arising in connection with the settlement of payments for trade in securities and other instruments. The risk arises if payments are remitted before the Bank can ascertain that the corresponding payments have been transferred to one of the Bank's accounts.

### Credit Policy

The Credit Policy shall be the primary means of communication through which the Board and Senior Management provide direction to guide and monitor the financing activities so that business goals are achieved without exposing the Bank beyond risk tolerance level approved by Board.



The corner stone of the Credit Policy is as under:

- The Bank shall mainly provide the Short Term Financing to meet working capital needs. However, Medium and Long Term Financing needs will be reviewed on selective basis for commercial clients having good name in the market, established rating and good track record of credit worthiness.
- The financing shall mostly relate to business meeting the risk acceptance criteria.
- The professional conduct and prudent administration of Credit Portfolio, within defined risk limitations, shall have a major contribution to Bank Albilad's overall objectives of achieving profitable and sustainable growth.
- Bank will not extend any credit facility which violates the rules and regulations prescribed, from time to time by SAMA or any other Regulatory Authority.
- The Credit Policy is providing continuity in approach and is taking into account the cyclical aspect of the country's economy.
- All the present and future credit policies of the Bank shall be within the overall framework of Basel Accord to be adopted as per road map provided / to be provided by SAMA.
- Bank will ensure that the facilities allowed are well aligned to customer's business structure, specific needs and debt servicing capacity.
- It is against the Bank's policy to provide financing for speculative purpose and undesirable activities.
- Bank Albilad attaches importance to establish and extend long-term customer relationships.
- Bank Albilad regularly follows up on developments in the customer's financial situation in order to assess whether the basis for the granting of credit has changed.
- Bank will consider the Term Finance facilities on very selective basis, only to financially sound business entities.
- Guarantees from private individuals are avoided and accepted as incremental comfort.
- The Bank is particularly cautious in its granting of credits to businesses in troubled or cyclical industries.

## Credit Concentration Risk

Concentration risk denotes the risk arising from an uneven distribution of counterparties in credit or any other business relationship or from concentration in business sectors or geographical regions. Accordingly, concentration risk in credit portfolios comes into being through an uneven distribution of bank loans to individual borrowers (name concentration) or in industry / service sector and geographical regions (sectoral concentration).

Bank Albilad's identification of risk concentrations in the credit portfolio is included as a credit risk management parameter. The following risk concentrations form a natural part of Bank Albilad's business strategy:

- Large exposures to a single party.
- Large exposures to a particular industry / sector.
- Concentration in exposures to a particular rating of customers.

## Credit Risk – General Disclosures

### Default

The definition of default used by the Bank is consistent with the requirements of the Basel guidelines. A receivable is registered as being in default when it is considered unlikely that the customer will fully repay all his obligations to the Bank or its subsidiaries.

### Remedial Management

For lending operations, proper care and caution is exercised and all parameter, as laid down under SAMA rules and Bank's own policy are followed. In such cases where there is a ray of hope for its recovery, the finances are also rescheduled and nursed for safe work – out. Whenever such a situation arises the Bank cannot sit idle and watch deterioration in the quality of its assets.

## Types of Provisions

### 1. General Provisions

While for Accounting Financial Statement purposes the guidelines provided in IAS will be followed. The bank builds general provision for the performing credit portfolio as per portfolio provision models.



## 2. Specific Provisions

A specific provision must be made of for incurred and expected losses for individually assessed Corporate, Government, Private Banking and other large risk assets to recognize the net realizable value of the risk assets.

Retail risk assets that fall under non performing categories should also be covered by specific provisions.

### Write-off Procedures

Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated. Amounts written off are deducted from the allowance account.

The write off proposal is processed after all possible efforts are exhausted to either recover or improve the risk rating including revival/rehabilitation of the borrower's business without exposing the Bank to unnecessary additional risk. The approving authority will give due consideration to the innovation and ingenuity of proposing officers in improving the risk rating or classification of risk assets, including restructuring of credit facilities. Such proposals should, however, clearly demonstrate improvement in bank's position preferably in both short and long terms.

### Credit Risk Mitigation

Bank Albilad uses a variety of financial and non-financial collateral and guarantees to mitigate the underlying credit risk in its regular lending and treasury operations. There is no collateralisation of treasury operations, i.e. Murabaha deals. Usage of purchased protection in the form of credit derivatives is negligible at this point of time. The bank adheres to the list of acceptable collateral and credit protection provided by SAMA to all banks in the Kingdom (except gold and silver).

Broad collateral types currently used by Bank Albilad include:

#### – Financial Collateral

- Cash margins.
- 'Customer Share' in LC Musharaka transactions.
- Cash collateral for extending credit or to protect counterparty default.
- Equities of local listed shares approved by the Shariah Board of the bank for corporate lending and share trading. The list of acceptable equities is periodically reviewed by Credit Committee.
- Local and foreign, Mutual Fund units, comprising of listed companies acceptable under Shariah law.

#### – Real Estate collateral

- Commercial Real Estate, used for securing the bank's exposure to corporate and commercial borrowers.
- Residential Real Estate, used for securing a mortgage provided to a retail customer.

#### – Guarantees

- Formal and legally enforceable guarantees received from Banks.
- Legally enforceable Personal guarantees

#### – Others

- Assignment of proceeds for revenue generated by projects financed by Bank Albilad. Each project financed has a separately defined limit which is part of the credit limit provided to the counterparty.
- Assignment of salary account in case of individual borrowers, and each instalment to be deducted from this account at each due date.

### Valuation of Collaterals

The Credit Committee conducts an independent valuation of the assets being pledged before acceptance and at defined frequencies depending on the nature of collateral. The valuation is conducted by a team of independent valuation experts.

Valuation of collaterals is based on the current market value of the same. Independence of the valuation expert shall be ensured so that the valuation is not biased to:

- Grant a higher credit limit to the borrower.
- Make a smaller quantum of provisions.

The Risk Management Group ensures that the valuation method used, whether internal or external, is based on assumptions that are both reasonable and prudent and all assumptions have been clearly documented.

Collateral is valued, wherever possible, at net realizable value, defined as the current market value less any potential realization costs including but not limited to carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral.

Bank Albilad aims to maintain a level of information about pledges and guarantees that is sufficient for it to regularly estimate the value thereof. The value is calculated as the amount received from a forced sale less the costs of realization, including costs for days on the market.

To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a Group relationship between the borrower and the guarantor exists. Bank must evaluate the guarantor before accepting the guarantee.

Standardized Approach and Supervisory Risk Weights

For portfolios under the standardized approach, External Credit Assessment Institutions risk assessments are used by Bank Albilad as part of the determination of risk weightings:

Currently the Bank’s corporate portfolio is externally unrated. However, for Financial Institutions, three SAMA recognized External Credit Assessment Agencies were nominated for this purpose, i.e. Moody’s Investors Service, Standard and Poor’s Ratings Group and the Fitch Group.

Credit ratings of all exposures are individually determined from the above credit rating agencies and mapped to the exposures assigning a risk weight according to the supervisory tables.

The alignment of alphanumeric scales of each agency to risk buckets is similar to BIS and SAMA guidelines.

Claims on sovereigns and their central banks

|                   |            |          |              |           |          |         |
|-------------------|------------|----------|--------------|-----------|----------|---------|
| Credit Assessment | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Below B- | Unrated |
| Risk Weight       | 0%         | 20%      | 50%          | 100%      | 150%     | 100%    |

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

|  |            |          |              |           |          |         |
|--|------------|----------|--------------|-----------|----------|---------|
| Credit Assessment                                  | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Below B- | Unrated |
| Risk Weight under option 2                         | 20%        | 50%      | 50%          | 100%      | 150%     | 50%     |
| Risk Weight for Short – Term claims under option 2 | 20%        | 20%      | 20%          | 50%       | 150%     | 20%     |

Multilateral Development Banks

0% risk weight for qualifying MDB’s as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option 2 for banks.

Claims on corporate

|                   |            |          |              |           |         |
|-------------------|------------|----------|--------------|-----------|---------|
| Credit Assessment | AAA to AA- | A+ to A- | BBB+ to BBB- | Below BB- | Unrated |
| Risk Weight       | 20%        | 50%      | 100%         | 150%      | 100%    |

Claims included in the regulatory non-mortgage retail portfolios

A 75% risk weight to be assigned to such exposures.

### Claims secured by residential mortgages

A 100% retail risk weight to be applied to such claims.

### Claims secured by commercial real estate

A 100% retail weight to be applied to such claims.

### Past Due Loans

| Risk Weight % | Level of Provisioning |
|---------------|-----------------------|
| 150           | Up to 20%             |
| 100           | 20% to 50%            |
| 100           | 50% and above         |

### Other Assets

The standard risk weight for all other assets will be 100% except gold to be treated equivalent to cash and risk weighted at 0%.

## Table (10) MARKET RISK: DISCLOSURE FOR BANKS USING STANDARDIZED APPROACHES 2013

### Market Risk

Market risk concerns with profit margin rate, yield curves and prices. The market risk arises from the changes in market prices in Murabaha, yield curve, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange.

The Bank applies the Standardized Approach in calculating market risk capital charge for Pillar I and advanced risk models for Pillar II which include Value-at-Risk and Stress Testing.

Bank Albilad's market risk capital charge for Pillar I as at the end of December 2013 is approximately SAR 49,987 thousands.

### Profit Margin Risk

Profit Margin Risk in the banking book is defined as the impact of the bank's asset and liability exposures to changes in profit margin rates. It arises principally from mismatches between the future re-investment rate and their funding costs, as a result of changes in profit rates.

For the purpose of profit margin risk management, the market risk at Bank Albilad measures yield curve risk, which expresses the losses if profit margin rates changed for various terms and different currencies.

### Foreign Exchange Risk

Foreign Exchange Risk is the risk of losses on the trading and banking book positions in foreign currency because of adverse changes in exchange rates against banks exposures. The overall potential loss is generally calculated using bank net open position as the maximum sum of long and short position currencies.

## Policies & Responsibilities

The Board of Directors has approved the limits for the market risk and liquidity risk for the Bank Albilad to be in line with the strategic risk exposure and risk appetite targets as per bank's market risk and liquidity risk policies. In addition, the Asset/Liability Committee regularly monitors and discusses issues within scope of market and liquidity risk.

Bank Albilad uses both conventional risk measures and advance risk models for measuring risk market and liquidity risk, such as, Liquidity Mis-matches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Net Non-Core funding dependency ratio, Basel 3 – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk to measure its market risk and liquidity risk exposures and they are reported to:

- Board of Directors and senior management on quarterly/monthly basis;
- SAMA on quarterly basis; and
- Business units on daily basis.

Bank Albilad's Value-at-Risk model is currently used for the Pillar II calculation.

Value-at-Risk is a statistical measure of the maximum loss that the Bank may incur on its portfolios over a certain period of time at a certain confidence level. Value-at-Risk is a risk measure that quantifies potential losses under normal market conditions.

A major advantage of using the Value at Risk is that it provides a combined figure for all risk types, which facilitate the monitoring, and control of market risks. In addition it takes into account the market factors volatilities and correlations.

The Bank uses historical simulation to calculate Value-at-risk which assumes normally distributed asset returns. As on 31st December 2013, Bank Albilad's value at risk is approximately SAR 66,373 thousands. The amount is the maximum that Bank Albilad would statistically lose at a confidence level of 99%, assuming that the exposure was maintained for 10 working days.

Bank Albilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank Albilad's losses if positions are exposed to profit margin rate shocks of +/- 200bp.

In addition to standard stress tests, calculations are made for a number of scenarios which are typically defined based on historic events that caused crises in the financial markets. However, current or future events expected to have an effect on the financial markets may also be used as input when defining the stress test scenarios. These scenarios are revised and changed regularly to reflect changes in Bank Al Bilad's risk profile and economic events. The analyses are made on the basis of the stress testing recommended by the Basel Committee.

Bank Albilad also conducts comprehensive stress tests of the model at regular intervals and the results are presented to the senior management. In addition, there are a number of other qualitative requirements to ensure that the model is completely up to date with respect to documentation, calculation methods and control measures.

Certain Bank Albilad's financial instruments cannot be valued by means of prices in the market; instead they are valued on the basis of pricing models developed internally by the Bank. The Risk Management conducts independent model validation that assesses the ability of the model to price and manage the risk of a given product.

Model validation is made regularly for the new and current models. This is done to ensure that no changes have been made to the product or have taken place in the market which may have an impact on the model accuracy. In addition, continuous procedures have been established to control and validate the market prices used to value and calculate risk.

The measuring, monitoring and management reporting of market risk are reported on daily basis to the senior management and stakeholders. Current market risks are calculated and reported using in-house database.

The limits are established for the trading and banking book of the business unit and these are monitored regularly and sufficient procedures have been established to ensure any breaches of the limit is addressed by the business unit on timely basis.

The Board of Directors, the Asset/Liability Committee, the Business and risk management stakeholders are updated regularly about the bank's market risks and material events in this area. This reporting includes follow-up on both risks within the individual categories of market risks and the overall risk measures in the form of Value-at-Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

## Liquidity Risk

The risk that the Bank may not be able to meet its obligations when due, at an acceptable market cost, is termed liquidity risk. Liquidity risk is measured by matching assets and liabilities based predefined maturity buckets.

Liquidity risk is defined as the risk of losses result from:

- Bank's funding costs increase disproportionately;
- Lack of funding prevents the Bank from establishing new business; or
- Lack of funding will ultimately prevent the Bank from meeting its obligations.

Liquidity management at Bank Al Bilad is based on monitoring and managing operational and structural liquidity risks in various scenarios.

The management of operational liquidity risk aims primarily at ensuring that the Bank always has sufficient liquidity in the short term to absorb such net effects of transactions made and expected. In addition to SAMA's liquidity ratio, the bank is also monitoring the Basel 3- Liquidity Coverage Ratio (LCR) as one of the indicator in assessing the potential termed liquidity risk for the bank.

Bank Al Bilad's liquidity risks policies are approved by the Board In addition the liquidity contingency plan has been implemented aiming to ensure that Bank Albilad is sufficiently prepared to take remedial action if an unfavorable liquidity situation is occurred.

Bank Al Bilad's policies have been defined with respect to how much negative funding the Bank wishes to accept. In liquidity management, the Bank distinguishes between liquidity in local, and foreign currencies.

The Risk Management has set limits for liquidity risks, which are calculated separately for local and foreign currencies. The Market Risk Department is responsible for ensuring that the Bank complies with the operational liquidity risk limits and any breaches is escalated to senior management timely.

The Key Business & Risk Units stakeholders receive reports on the Bank's liquidity risks regularly. Moreover, the Asset/Liability Committee continuously assesses developments in the Bank's liquidity and plans long-term funding.

## Managing Short-Term Liquidity Risk

The management of Bank Albilad's short-term, or operational, liquidity risk aims primarily at ensuring that the Bank has an adequate liquidity buffer that is able, in the short term, to absorb the net effects of transactions already made and expected changes.

Liquidity is determined on the basis of cash flows of outstanding transactions. The calculation is made taking into account the Bank's holdings of liquid assets. In managing the short-term liquidity risk, the Bank will ensure that the liquidity reserve ratio is higher than minimum threshold established by SAMA.

## Managing Long-Term Liquidity Risk

Structural liquidity risk is managed based on considerations of the Bank's long-term liquidity mismatch. The management of this risk aims to ensure that the Bank does not build up an inexpediently large future funding requirement. Determining the structural liquidity is important when the Bank plans its funding activities and pricing.

The Bank manages the structural liquidity risk on the basis of a gap report. The gap report is based on a breakdown of the Bank's assets, liabilities and off-balance sheet items by maturity. For that purpose, the Bank uses the contractually fixed maturity dates for each product.

As part of the management of the Bank's structural liquidity risk, the liquidity position in the gap report is divided into a number of variables such as foreign exchange, product, business area and organizational units. These reports reflect, among other things, that the Bank has a structural liquidity surplus dominated in local currency.

## Liquidity Scenario Analysis

Bank Al Bilad conducts stress tests to measure the Bank's immediate liquidity risk and to ensure that the Bank has a certain response time if a crisis occurs. The stress tests estimate the structural liquidity risk in various scenarios. The scenario analyses involve bank specific crises and general market crises. In addition, the bank is monitoring the Basel 3 – Net Stable Funding Ratio (NSFR) as one of the indicator in assessing the potential structural liquidity risk for the bank.

The Bank monitors the diversification of products, currencies, maturities, concentration of major depositors and the dependency of the volatile funding from interbank market to ensure that the Bank has a funding base that will protect the Bank to the greatest possible extent if markets come under pressure.

### Table (12) OPERATIONAL RISK 2013

The Bank's definition of operational risk is in line with Basel Committee guidelines. It is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk, includes breakdowns in control framework, human error, legal & regulatory risks and the risks arising from change initiatives.

To manage operational risk the bank has set forth a framework that define the bank approach for managing this important type of risk, policy that define stakeholders roles and responsibilities and explain the operational risk management methodologies. Besides, the bank has documented a clear procedures to put the operational risk framework and policy into action. Operational risk management discipline in the Bank aims to achieve many objectives including the following :

- Supporting the Bank's objectives.
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems.
- Independent evaluation of processes, controls, procedures, business performance in an ongoing basis.
- Limiting operational losses and solving the causing problems at their roots.

The Bank is also keen on implementing the operational risk governance mechanism through the following:

- Supervision by the Board of Directors and Senior Management
- Forming a Risk Management Committee for supervising operational risk activities
- Providing an accurate description of the roles and responsibilities of various operational risk management parties
- Performing the internal auditing required for independent assessment of operational risk activities and providing reports to the Auditing Committee

To implement the Bank's operational risk management strategy, a number of methods have been adopted to identify, assess, rectify, and monitor the Bank's various activities as follows:

- **Risk and Control-Self Assessment :** The Bank has applied the risk and control self-Assessment methodology which enable the operational risk management function to participate with business and support functions in an active endeavor to define the risks inherent in business activities, and control elements in place to mitigate these risks. These risks and controls are then assessed against a predefined risk and control matrix. The assessment process helps to pinpoint the key risks and control gaps. Then an Action plan to address the gaps is followed to mitigate the key risks.
- **Loss Data Collection :** The Bank is collecting operational losses resulting from people, systems or processes failures or any other loss due to operational risks. Collected losses then classified according to predefined loss and business line categories. Operational risk team endeavor in coordination with related stakeholder to define the root cause responsible for realization of risks, and recommend the controls that help in mitigating the defined risks. All operational losses, relevant risks and controls are collected in a database with the proper classification to define the concentration relevant to loss event type or business line.
- **Key Risk Indicators :** Key risk indicators are indicators to risks which are key, by collecting the data relevant to key risks, the Bank can monitor the level of key risks identified through the risk and control self-assessment methodology. Key risks indicators are then assessed against a predefined thresholds to escalate the indicators that exceed the acceptable level of thresholds.
- To validate the output of each operational risk management methodology the results of that methodology are compared with the result of the other methodology, this approach help to achieve consistency and integration. Detailed reports addressing the operational risks are prepared and distributed to the defined authority level, business lines a, support functions and top management to help address the causes of operational risks. Periodical reports are produced and submitted to risk and compliance committee and the Board to provide the oversight of operational risk management.





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