

بنك البتراء  
BANK ALBILAD  
مصرفية إسلامية حقيقية



**BANK ALBILAD**  
(A Saudi Joint Stock Company)

**Consolidated Financial Statements**  
**For the year ended December 31, 2011**

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## INDEPENDENT AUDITORS' REPORT

### **To the Shareholders of Bank AlBilad (a Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Bank AlBilad (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated income statement, statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 39. We have not audited note 35, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

**Deloitte & Touche**  
**Bakr Abulkhair & Co.**

P.O. Box 213  
Riyadh 11411  
Kingdom of Saudi Arabia



**Ehsan A. Makhdoum**  
Certified Public Accountant  
Registration No. 358



**KPMG Al Fozan & Al Sadhan**

P.O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia



**Tareq A. Al Sadhan**  
Certified Public Accountant  
Registration No. 352

Rabi Al-Awal 21, 1433H  
February 13, 2012



**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2011 AND 2010

	<u>Notes</u>	<u>2011 SAR'000</u>	<u>2010 SAR'000</u>
<b>ASSETS</b>			
Cash and balances with SAMA	4	5,834,702	2,497,282
Due from banks and other financial institutions, net	5	6,454,366	4,032,405
Investments, net	6	951,458	1,610,918
Financing, net	7	13,779,746	12,289,826
Property and equipment, net	8	328,436	341,890
Other assets	9	378,461	344,365
<b>Total assets</b>		<u><u>27,727,169</u></u>	<u><u>21,116,686</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	10	421,837	382,429
Customer deposits	11	23,037,934	16,932,415
Other liabilities	12	851,148	698,881
<b>Total liabilities</b>		<u><u>24,310,919</u></u>	<u><u>18,013,725</u></u>
<b>Shareholders' equity</b>			
Share capital	13	3,000,000	3,000,000
Employee share plan	37	(41,097)	(42,136)
Statutory reserve	14	134,653	52,246
Other reserve	6 (a)&15	6,236	23,611
Retained earnings		316,458	69,240
<b>Total shareholders' equity</b>		<u><u>3,416,250</u></u>	<u><u>3,102,961</u></u>
<b>Total liabilities and shareholders' equity</b>		<u><u>27,727,169</u></u>	<u><u>21,116,686</u></u>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

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**CONSOLIDATED INCOME STATEMENT**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Notes</u>	<u>2011 SAR'000</u>	<u>2010 SAR'000</u>
<b>INCOME:</b>			
Income from investing and financing assets	17	727,934	646,192
Return paid on deposits and financial liabilities	18	<u>(24,948)</u>	<u>(21,447)</u>
Net income from investing and financing assets		<b>702,986</b>	<b>624,745</b>
Fee and commission income, net	19	458,296	341,879
Exchange income, net		189,436	121,162
Dividend income	20	10,884	3,478
Gains on non-trading investments, net	21	7,396	7,557
Other operating income	22	<u>4,510</u>	<u>311</u>
<b>Total operating income</b>		<b><u>1,373,508</u></b>	<b><u>1,099,132</u></b>
<b>EXPENSES:</b>			
Salaries and employee related benefits	31	448,977	384,593
Rent and premises related expenses		111,276	100,337
Depreciation and amortization	8	88,689	111,107
Other general and administrative expenses		142,699	121,228
Impairment charge for other financial assets		-	47,244
Impairment charge for financing assets	7(a)	<u>252,242</u>	<u>242,303</u>
<b>Total operating expenses</b>		<b><u>1,043,883</u></b>	<b><u>1,006,812</u></b>
<b>Net income for the year</b>		<b><u>329,625</u></b>	<b><u>92,320</u></b>
<b>Basic and diluted earnings per share (Saudi Riyals)</b>	23	<b><u>1.10</u></b>	<b><u>0.31</u></b>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Note</u>	<u>2011 SAR'000</u>	<u>2010 SAR'000</u>
<b>Net income for the year</b>		<b>329,625</b>	92,320
<b>Other comprehensive income:</b>			
- Net change in fair value of available for sale financial assets	6(a)	<b>(17,375)</b>	8,467
<b>Total comprehensive income for the year</b>		<b><u>312,250</u></b>	<b><u>100,787</u></b>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Notes</u>	SAR'000				Retained earnings	Total
		Share capital	Employee share plan	Statutory reserve	Other reserve		
<b>2011</b>							
Balance at the beginning of the year		3,000,000	(42,136)	52,246	23,611	69,240	3,102,961
Total comprehensive income for the year		-	-	-	(17,375)	329,625	312,250
Employee share plan reserve	37	-	1,039	-	-	-	1,039
Transfer to statutory reserve	14	-	-	82,407	-	(82,407)	-
Balance at the end of the year		<u>3,000,000</u>	<u>(41,097)</u>	<u>134,653</u>	<u>6,236</u>	<u>316,458</u>	<u>3,416,250</u>
<b>2010</b>							
Balance at the beginning of the year		3,000,000	(42,128)	29,166	15,144	-	3,002,182
Total comprehensive income for the year		-	-	-	8,467	92,320	100,787
Returned shares for employee share plan	37	-	(8)	-	-	-	(8)
Transfer to statutory reserve	14	-	-	23,080	-	(23,080)	-
Balance at the end of the year		<u>3,000,000</u>	<u>(42,136)</u>	<u>52,246</u>	<u>23,611</u>	<u>69,240</u>	<u>3,102,961</u>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Note</u>	<u>2011 SAR' 000</u>	<u>2010 SAR' 000</u>
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the year</b>		<b>329,625</b>	<b>92,320</b>
<b>Adjustments to reconcile net income to net cash from / (used in) operating activities:</b>			
(Gains) on non-trading investments, net		(7,396)	(7,557)
Adjustments of property and equipment, net		(2,473)	(1,494)
Depreciation and amortization		88,689	111,107
Impairment charge for other financial assets		-	47,244
Impairment charge for financing assets		252,242	242,303
<b>Operating profit before changes in operating assets and liabilities</b>		<b>660,687</b>	<b>483,923</b>
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposits with SAMA		(190,350)	(206,098)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(403,073)	(999,801)
Investments		700,486	(50,575)
Financing		(1,742,161)	(1,518,014)
Other assets		(34,096)	47
<b>Net increase/ (decrease) in operating liabilities:</b>			
Due to SAMA		-	(150,000)
Due to banks and other financial institutions		39,408	334,102
Customer deposits		6,105,519	3,211,788
Other liabilities		152,267	208,825
<b>Net cash from operating activities</b>		<b>5,288,687</b>	<b>1,314,197</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		(252,559)	(159,294)
Proceeds from sales of non-trading investments		201,555	149,414
Purchase of property and equipment		(83,635)	(57,167)
Proceeds from sale of property and equipment		10,873	166
<b>Net cash (used in) investing activities</b>		<b>(123,766)</b>	<b>(66,881)</b>
<b>FINANCING ACTIVITIES</b>			
shares for employee share plan, net		1,039	(8)
<b>Net cash from/(used in) financing activities</b>		<b>1,039</b>	<b>(8)</b>
<b>Increase in cash and cash equivalents</b>		<b>5,165,960</b>	<b>1,247,308</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>3,841,864</b>	<b>2,594,556</b>
<b>Cash and cash equivalents at end of the year</b>	24	<b>9,007,824</b>	<b>3,841,864</b>
Income received from investing and financing assets		703,695	604,307
Return paid on deposits and financial liabilities		31,196	15,728
<b>Supplemental non cash information</b>			
Net changes in fair value reserve		(17,375)	8,467

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**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 1425 H (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 Investment Company' and 'AlBilad Real Estate Company' (collectively referred to as "the Group"). 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 accordance with Islamic Shariah and within the provisions of the Articles and Memorandum of Association, by-laws and the Banking Control Law. The activities are monitored by an independent Shariah authority established by the Bank. The Bank provides these services through 82 banking branches (2010: 75) and 126 exchange and remittance centers (2010: 104) 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 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 and the Bank's Articles 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**c) Functional and presentation currency**

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as indicated, financial information presented in SAR has been rounded to the nearest thousand.

**d) Critical accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions that might 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 losses on financing assets**

The Bank reviews its financing portfolio to assess specific and collective impairment at least on a quarterly 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 with the Bank.

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 unquoted financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Unquoted equity financial instruments are stated at cost less impairment if the fair value of the investments cannot be reliably measured.

**(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 judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**(iv) Impairment of available-for-sale equity investments**

The Bank exercises judgment to consider impairment on the available-for-sale equity 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 share 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.

**e) Going concern**

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies used in the preparation of these consolidated financial statements are consistent with those of the prior year except for amendments to the existing standards, as mentioned below:

**a) IAS 24 Related Party Disclosures (revised 2009)**

The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

**b) Amendments to IFRIC 14, IAS 19 – The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction.**

These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than as an expense.

**c) Amendments to IFRS 7 – Financial Instruments: Disclosures - Transfers of Financial Assets.**

These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:

- Financial assets that are not derecognized in their entirety; and
- Financial assets that are derecognized in their entirety but for which the entity retains continuing involvement.

**d) Improvements to IFRSs 2010 – IFRS 7 Financial Instruments; Disclosures**

These amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

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e) Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements

IAS 1 was amended to clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in equity or in the notes.

Other amendments resulting from improvements to IFRSs to the following standards did not have any material impact on the accounting policies, financial position, and performance of the Group:

- IFRS 3;
- IFRS 7;
- IAS 1;
- IAS 27; and
- IAS 32.

a) **Basis of the preparation of the consolidated financial statements**

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 all entities over which the Bank has the power 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. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represent the portion of net income and net assets attributable to interests which are not owned, directly or indirectly, by the Bank in its subsidiaries. As at December 31, 2011, non-controlling interest of 1% of net assets in AlBilad Investment Company and is owned by representative shareholders and hence is not presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position. AlBilad Real Estate Company is 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.

b) **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.

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

**c) 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 date of the consolidated statement of financial position.

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

**d) Offsetting**

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

**e) Due from banks and financial institution, Investments and financing****1. Due from banks and other financial institutions**

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

**2. 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 investments** - Available-for-sale investments are non-derivative financial instruments that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the 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

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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, but where this is not feasible, a degree of judgement 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.

**3. Financing** - Financing comprising of Bei-ajel, installment sales and Musharakah, 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 installment sales** - 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.

**a. Impairment of financial assets**

*Financial assets carried at amortized cost*

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. 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 income statement.

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. In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a portfolio

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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 investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate.

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 recognized in the consolidated income statement in impairment charge. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

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 income statement 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 income statement.

**b. Revenue recognition**

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

Fee and commission are recognized when the service has been provided. Financing commitment fee that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing.

Portfolio and other management advisory and service fee are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, wealth management, 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. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

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Special commission income against commodity Murabaha with SAMA is recognised in the consolidated income statement on a time proportion basis.

Exchange income/loss is recognized when earned/incurred.

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

**c. 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 expires.

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 expired.

**d. 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 income statement as it is deducted from the dividends paid to the 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.

**e. Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation arising as a result of past events and it is probable 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.

**f. Contingent assets and liabilities**

Contingent assets are not recognized by the Bank, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognized, and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.



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In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. The premium received on financial guarantees is initially recognised in the financial statements at fair value in other liabilities. The premium received is recognised in the consolidated income statement in "Fee and commission income, net" on a straight line basis over the life of the guarantee.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-financial position transactions and are disclosed as contingent liabilities and commitments.

**g. Accounting for leases**

Leases entered into by the Bank as a lessee are all operating leases. Accordingly, payments are charged to the consolidated income statement on straight-line basis over the period of the lease.

**h. Cash and cash equivalents**

For the purpose of the 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 a maturity of three months or less from the date of acquisition.

**i. 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	20 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 statement of financial position date.

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

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.

**j. 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

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**k. 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.

**l. Income excluded from the consolidated income statement**

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 Bank's income for its final disposal.

**m. Employee share plan**

The bank offers its eligible employees an equity settled share based payment plan as approved by SAMA and CMA. The cost of the plan is measured by reference to the fair value at the date on which the shares are granted. The cost of the plan is recognized over the period in which the service condition is fulfilled on straight line bases, ending on the date at which the relevant employees become fully entitled to the shares (the vesting date). At each reporting date, Management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employee share plan reserve.

Under the terms of the plan, the Group has already purchased certain number of Treasury shares for the purposes of the above scheme. As per the approved scheme with the approval of SAMA, primarily for discharging its obligation under share based payment plans and are carried at cost., the custodianship of the above mentioned shares has been given to an independent Investment company ("the custodian"). The custodian shall only keep the shares, along with any benefits accrued there on, during the vesting period and shall have no voting rights during the same period. Upon completion of the vesting period the title of the shares will be transferred to the eligible employees along with any benefits accrued thereon in the shape of dividends, rights, bonus etc.

**n. 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.

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**4. CASH AND BALANCES WITH SAMA**

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

	<b>2011</b> <b>SAR'000</b>	2010 SAR'000
Cash in hand	<b>1,115,535</b>	772,976
Statutory deposit	<b>1,180,808</b>	990,458
Other balances	<b>3,538,359</b>	733,848
<b>Total</b>	<b>5,834,702</b>	<b>2,497,282</b>

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 customers' deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Banks' day to day operations and therefore is not part of cash and cash equivalents.

**5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET**

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

	<b>2011</b> <b>SAR'000</b>	2010 SAR'000
Current accounts	<b>1,302,182</b>	<b>129,654</b>
Commodity murabaha	<b>5,248,446</b>	3,999,013
Provision for impairment on commodity murabaha	<b>(96,262)</b>	(96,262)
	<b>5,152,184</b>	<b>3,902,751</b>
<b>Total</b>	<b>6,454,366</b>	<b>4,032,405</b>

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

	<b>2011</b> <b>SAR' 000</b>	2010 SAR' 000
Balance at beginning of the year	<b>96,262</b>	49,018
Provided during the year	-	47,244
<b>Balance at end of the year</b>	<b>96,262</b>	<b>96,262</b>

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Investments comprise the following as of December 31:

	2011		
	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
<b>Available-for-sale investments</b>			
Equities	122,296	150,000	272,296
Mutual fund	20,791	-	20,791
Sukuk	58,000	-	58,000
	<u>201,087</u>	<u>150,000</u>	<u>351,087</u>
<b>Held at amortized cost</b>			
Commodity murabaha with SAMA	-	600,371	600,371
	<u>201,087</u>	<u>750,371</u>	<u>951,458</u>
	2010		
	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
<b>Available-for-sale investments</b>			
Equities	121,873	150,000	271,873
Mutual fund	38,187	-	38,187
	<u>160,060</u>	<u>150,000</u>	<u>310,060</u>
<b>Held at amortized cost</b>			
Commodity Murabaha with SAMA	-	1,300,858	1,300,858
	<u>160,060</u>	<u>1,450,858</u>	<u>1,610,918</u>

**a) Movement in other reserves is summarized as follows:**

	2011 SAR'000	2010 SAR'000
Balance at beginning of the year	23,611	15,144
transfer during the year	(17,375)	8,467
<b>Balance at the end of the year</b>	<u>6,236</u>	<u>23,611</u>

**b) The analysis of investments by counter-party is as follows:**

	2011 SAR'000	2010 SAR'000
Corporate	330,296	271,873
Banks and other financial institutions	20,791	38,187
SAMA	600,371	1,300,858
<b>Total</b>	<u>951,458</u>	<u>1,610,918</u>

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- c) Equities reported under available-for-sale investments in the stock market include unquoted shares for SAR 150 million (2010: SAR 150) that are carried at cost, as their fair value cannot be reliably measured.

**7. FINANCING, NET**

Financing, net as of December 31, comprise the following:

<u>2011</u>	Non		<u>Total</u>	<u>Provisions</u>	<u>Net</u>
	<u>Performing</u>	<u>performing</u>			
	<u>SAR' 000</u>	<u>SAR' 000</u>	<u>SAR' 000</u>	<u>SAR' 000</u>	<u>SAR' 000</u>
Bei ajel	7,037,464	601,311	7,638,775	(706,794)	<b>6,931,981</b>
Installment sales	5,597,065	44,847	5,641,912	(127,032)	<b>5,514,880</b>
Ijarah	352,968	-	352,968	-	<b>352,968</b>
Musharakah	991,113	39,057	1,030,170	(50,253)	<b>979,917</b>
<b>Total</b>	<b>13,978,610</b>	<b>685,215</b>	<b>14,663,825</b>	<b>(884,079)</b>	<b>13,779,746</b>

2010

Bei ajel	<b>6,244,515</b>	<b>628,775</b>	<b>6,873,290</b>	<b>(554,911)</b>	<b>6,318,379</b>
Installment sales	<b>4,451,825</b>	<b>29,727</b>	<b>4,481,552</b>	<b>(45,540)</b>	<b>4,436,012</b>
Ijarah	<b>375,103</b>	-	<b>375,103</b>	-	<b>375,103</b>
Musharakah	<b>1,143,622</b>	<b>49,288</b>	<b>1,192,910</b>	<b>(32,578)</b>	<b>1,160,332</b>
<b>Total</b>	<b>12,215,065</b>	<b>707,790</b>	<b>12,922,855</b>	<b>(633,029)</b>	<b>12,289,826</b>

**a) Impairment charge for financing assets:**

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

	<u>2011</u>	<u>2010</u>
	<u>SAR' 000</u>	<u>SAR' 000</u>
Balance at beginning of the year	<b>633,029</b>	390,775
Provided during the year	<b>252,242</b>	242,303
Amounts written off during the year	<b>(1,192)</b>	(49)
<b>Balance at end of the year</b>	<b>884,079</b>	<b>633,029</b>

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**b) The concentration risks and related provision, by major economic sectors as of December 31, are as follows:**

<b>2011</b>	<b>Performing financing SAR' 000</b>	<b>Non- performing financing SAR' 000</b>	<b>Provisions SAR' 000</b>	<b>Financing, net SAR' 000</b>
Commercial	1,966,850	83,147	(85,388)	<b>1,964,609</b>
Industrial	990,395	358,484	(377,886)	<b>970,993</b>
Building and construction	2,712,422	5,576	(52,055)	<b>2,665,943</b>
Transportation and communication	5,478	-	(94)	<b>5,384</b>
Services	363,029	50,998	(59,273)	<b>354,754</b>
Agriculture and fishing	732,639	1,410	(13,963)	<b>720,086</b>
Personal	5,597,065	44,847	(127,032)	<b>5,514,880</b>
Other	1,610,732	140,753	(168,388)	<b>1,583,097</b>
<b>Total</b>	<b>13,978,610</b>	<b>685,215</b>	<b>(884,079)</b>	<b>13,779,746</b>

<b>2010</b>	<b>Performing financing SAR '000</b>	<b>Non- performing financing SAR '000</b>	<b>Provisions SAR '000</b>	<b>Financing, net SAR '000</b>
Commercial	1,995,093	61,496	(40,428)	<b>2,016,161</b>
Industrial	1,175,942	361,852	(363,517)	<b>1,174,277</b>
Building and construction	2,301,028	6,251	(5,151)	<b>2,302,128</b>
Transportation and communication	6,281	-	-	<b>6,281</b>
Services	460,126	57,401	(59,343)	<b>458,184</b>
Agriculture and fishing	560,135	22,443	(5,611)	<b>576,967</b>
Personal	4,451,825	29,727	(45,540)	<b>4,436,012</b>
Other	1,264,635	168,620	(113,439)	<b>1,319,816</b>
<b>Total</b>	<b>12,215,065</b>	<b>707,790</b>	<b>(633,029)</b>	<b>12,289,826</b>

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For presentation purposes, the Bank has categorized its portfolio of financing that are neither past due nor impaired into five sub categories i.e. excellent, good, satisfactory, fair risk and watch list.

<b>Grades</b>	<b>2011</b>	<b>2010</b>
	<b><u>SAR' 000</u></b>	<b><u>SAR' 000</u></b>
Excellent	579,160	879,448
Good	7,853,733	5,753,906
Satisfactory	1,642,804	832,506
Fair risk	3,340,982	4,111,389
Watch list	432,007	484,045
<b>Total</b>	<b><u>13,848,686</u></b>	<b><u>12,061,294</u></b>

**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.

**d)** 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:

<b><u>2011</u></b>	<b>Installment</b>				<b>Total SAR '000</b>
	<b>Bei Ajel SAR '000</b>	<b>sales SAR '000</b>	<b>Ijarah SAR '000</b>	<b>Musharakah SAR '000</b>	
Individually impaired loan	601,311	44,847	-	39,057	<b>685,215</b>
Fair value of collateral	494,964	2,396	-	80,309	<b>577,669</b>
<b><u>2010</u></b>	<b>Installment</b>				<b>Total SAR '000</b>
	<b>Bei Ajel SAR '000</b>	<b>sales SAR '000</b>	<b>Ijarah SAR '000</b>	<b>Musharakah SAR '000</b>	
Individually impaired loan	628,775	29,727	-	49,288	707,790
Fair value of collateral	619,591	1,210	-	72,493	693,294

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<u>2011</u>	<u>Bei Ajel SAR '000</u>	<u>Installment sales SAR '000</u>	<u>Ijarah SAR '000</u>	<u>Musharakah SAR '000</u>	<u>Total SAR '000</u>
1 to 30 days	45,281	15,809	-	-	<b>61,090</b>
31 to 90 days	59,843	8,991	-	-	<b>68,834</b>
91 to 180 days	-	-	-	-	-
Above 180 days	-	-	-	-	-
<b>Total</b>	<b>105,124</b>	<b>24,800</b>	<b>-</b>	<b>-</b>	<b>129,924</b>
Fair value of collateral	<b>639,108</b>	<b>9,123</b>	<b>-</b>	<b>-</b>	<b>648,231</b>
<b>2010</b>					
1 to 30 days	-	119,506	-	-	<b>119,506</b>
31 to 90 days	2,352	23,828	-	8,085	<b>34,265</b>
91 to 180 days	-	-	-	-	-
Above 180 days	-	-	-	-	-
<b>Total</b>	<b>2,352</b>	<b>143,334</b>	<b>-</b>	<b>8,085</b>	<b>153,771</b>
Fair value of collateral	<b>2,352</b>	<b>59,217</b>	<b>-</b>	<b>-</b>	<b>61,569</b>

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

**f) Collateral**

The Bank 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:

<u>2011</u>	<u>Bei Ajel SAR '000</u>	<u>Musharaka SAR '000</u>	<u>Ijarah SAR '000</u>	<u>Installment sales SAR '000</u>	<u>Total SAR '000</u>
Real estate	2,989,493	128,335	-	1,450,278	<b>4,568,106</b>
Shares and investment	1,456,285	163,236	-	-	<b>1,619,521</b>
Third party guarantee	2,516,334	663,593	-	-	<b>3,179,927</b>
Unsecured	676,663	75,006	352,968	4,191,634	<b>5,296,271</b>
<b>Total</b>	<b>7,638,775</b>	<b>1,030,170</b>	<b>352,968</b>	<b>5,641,912</b>	<b>14,663,825</b>



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<b>2010</b>	<b>Bei Ajel SAR '000</b>	<b>Musharaka SAR '000</b>	<b>Ijarah SAR '000</b>	<b>Installment sales SAR '000</b>	<b>Total SAR '000</b>
Real estate	2,263,150	91,800	-	1,175,721	<b>3,530,671</b>
Shares and investment	1,607,089	327,772	-	-	<b>1,934,861</b>
Third party guarantee	2,484,210	643,455	-	-	<b>3,127,665</b>
Unsecured	518,841	129,883	375,103	3,305,831	<b>4,329,658</b>
<b>Total</b>	<b>6,873,290</b>	<b>1,192,910</b>	<b>375,103</b>	<b>4,481,552</b>	<b>12,922,855</b>

**8. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net comprise the following as of December 31:

<b>SAR '000</b>	<b>Lands and building</b>	<b>Leasehold improvements</b>	<b>Equipment and furniture</b>	<b>Computer hardware and software</b>	<b>Total 2011</b>	<b>Total 2010</b>
<b>Cost:</b>						
January 1	-	369,647	185,316	301,842	856,805	799,811
Additions during the year	12,304	31,592	25,588	14,151	83,635	57,167
disposal / Adjustments	-	-	(22,915)	(1,385)	(24,300)	(173)
<b>At December 31</b>	<b>12,304</b>	<b>401,239</b>	<b>187,989</b>	<b>314,608</b>	<b>916,140</b>	<b>856,805</b>
<b>Accumulated depreciation and amortization:</b>						
January 1	-	136,993	134,923	242,999	514,915	405,309
Charge for the year	118	38,932	18,722	30,917	88,689	111,107
disposal / Adjustments	-	-	(14,515)	(1,385)	(15,900)	(1,501)
<b>At December 31</b>	<b>118</b>	<b>175,925</b>	<b>139,130</b>	<b>272,531</b>	<b>587,704</b>	<b>514,915</b>
<b>Net book value:</b>						
<b>At December 31, 2011</b>	<b>12,186</b>	<b>225,314</b>	<b>48,859</b>	<b>42,077</b>	<b>328,436</b>	
At December 31, 2010	-	232,654	50,393	58,843		341,890

Leasehold improvements include work-in-progress as of December 31, 2011 amounting to SAR 11 Million (2010: SAR 11 million).

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Other assets comprise the following as of December 31:

	<u>Note</u>	<b>2011 SAR'000</b>	2010 SAR'000
Prepaid rental expenses		<b>15,613</b>	11,736
Advances to suppliers		<b>18,712</b>	11,879
Management fee receivable		<b>33,359</b>	5,764
Other	9.1	<b>310,777</b>	314,986
<b>Total</b>		<b><u>378,461</u></b>	<b><u>344,365</u></b>

**9.1** Included in "Other" is an amount of SAR 280 million (2010: SAR 280 million) representing cost of land purchased by the Bank.

**10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

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

	<b>2011 SAR'000</b>	2010 SAR'000
Current accounts	<b>9,256</b>	4,753
Time investments	<b>412,581</b>	377,676
<b>Total</b>	<b><u>421,837</u></b>	<b><u>382,429</u></b>

**11. CUSTOMER DEPOSITS**

Customer deposits comprise the following as of December 31:

	<b>Notes</b>	<b>2011 SAR'000</b>	2010 SAR'000
Current accounts	11.1	<b>18,582,336</b>	11,372,006
AlBilad accounts		<b>2,929,251</b>	2,518,512
Customers' time investments		<b>1,192,169</b>	2,779,786
Other deposits	11.2	<b>334,178</b>	262,111
<b>Total</b>		<b><u>23,037,934</u></b>	<b><u>16,932,415</u></b>

**11.1** Current accounts include foreign currency deposits of SAR 1,257 million (2010: SAR 34 million).

**11.2** Other deposits include Current accounts on behalf of the Bank's mutual funds of SAR 5 million (2010: SAR 6 million) and margins held for irrevocable commitments of SAR 329 million (2010: SAR 256 million).

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Other liabilities comprise the following as of December 31:

	<b>2011</b>	2010
	<b>SAR'000</b>	SAR'000
Accounts payable	<b>516,255</b>	483,203
Accrued expenses - Staff	<b>100,510</b>	86,266
Accrued operating expenses	<b>89,630</b>	55,933
Other	<b>144,753</b>	73,479
<b>Total</b>	<b>851,148</b>	<b>698,881</b>

**13. SHARE CAPITAL**

The authorized issued and fully paid capital of the Bank consists of 300 million shares of SAR 10 each. (2010: 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 82 million (2010: SAR 23 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

**15. OTHER RESERVE**

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

**16. COMMITMENTS AND CONTINGENCIES****a) Legal proceedings**

As of December 31, 2011, there were routine legal proceedings outstanding against the Bank. No provisions have been made as professional legal advice indicates that it is not probable that any significant loss will arise.

**b) Capital commitments**

As of December 31, 2011, the Bank had capital commitments of SAR 88 million (2010: SAR 38 million) relating to leasehold improvements on leased branches and ATM.

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**c) Credit related commitments and contingencies**

Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of 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.

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

Cash requirements under letters of credit and guarantee 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.

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:**

<b>2011 (SAR'000)</b>	<b>Less than 3 months</b>	<b>From 3 months to 12 months</b>	<b>From 1 to 5 years</b>	<b>Total</b>
Letters of credit	194,761	376,070	48,711	619,542
Letters of guarantee	181,896	701,384	964,188	1,847,468
Acceptances	186,778	91,606	-	278,384
Underwriting	-	-	-	-
<b>Total</b>	<b>563,435</b>	<b>1,169,060</b>	<b>1,012,899</b>	<b>2,745,394</b>

<b>2010 (SAR'000)</b>	<b>Less than 3 months</b>	<b>From 3 months to 12 months</b>	<b>From 1 to 5 years</b>	<b>Total</b>
Letters of credit	345,478	413,583	21,883	780,944
Letters of guarantee	225,576	742,153	682,145	1,649,874
Acceptances	197,460	45,228	-	242,688
Underwriting	-	300,000	-	300,000
<b>Total</b>	<b>768,514</b>	<b>1,500,964</b>	<b>704,028</b>	<b>2,973,506</b>

The outstanding unused portion of commitments, as of December 31, 2011, which can be revoked at any time by the Bank amounts to SAR 3,2 billion (2010: SAR 3.5 billion).

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(ii) The analysis of commitments and contingencies by counter party as of December 31 is as follows :

	<b>2011</b> <b>SAR'000</b>	<b>2010</b> <b>SAR'000</b>
Corporate	<b>2,613,626</b>	2,868,052
Financial institutions (Guarantees)	<b>110,108</b>	72,444
Other	<b>21,660</b>	33,010
<b>Total</b>	<b><u>2,745,394</u></b>	<b><u>2,973,506</u></b>

**d) Operating lease commitments**

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

	<b>2011</b> <b>SAR'000</b>	<b>2010</b> <b>SAR'000</b>
Less than one year	<b>64,731</b>	59,200
One year to five years	<b>172,069</b>	210,840
Over five years	<b>61,562</b>	57,236
<b>Total</b>	<b><u>298,362</u></b>	<b><u>327,276</u></b>

**e) Restricted investment accounts**

	<b>2011</b> <b>SAR'000</b>	<b>2010</b> <b>SAR'000</b>
Under Wakalah arrangement	<b><u>1,189,256</u></b>	<b><u>188,409</u></b>

The Bank accepts restricted investment from customers under Wakalah arrangements. These investments are invested by the Bank in commodity Murabaha with banks and other financial institutions. Management fee are charged on these accounts.

**f) 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 assessments resulted in additional Zakat liability of SR 62, SR 60 and SR 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.

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. The Bank has accordingly not recognised 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, 2011 amounted to SAR 10 million (2010: SAR 3.6 million). Zakat will be paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

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**17. INCOME FROM INVESTING AND FINANCING ASSETS**

Income from investing and financing assets for the years ended December 31 comprises the following:

	<b>2011</b>	2010
	<b>SAR'000</b>	SAR'000
<b>Held at amortized cost</b>		
<b>Investments</b>		
Commodity murabaha with SAMA	<b>3,985</b>	3,807
Commodity murabaha with banks and financial institutions	<b>23,457</b>	18,314
Profit From Sukuk Investments	<b>206</b>	-
<b>Financing</b>		
Bei ajel	<b>320,470</b>	313,877
Installment sales	<b>331,369</b>	266,139
Ijarah	<b>2,943</b>	3,610
Musharakah	<b>45,504</b>	40,445
<b>Total</b>	<b><u>727,934</u></b>	<b><u>646,192</u></b>

**18. RETURN PAID ON DEPOSITS AND FINANCIAL LIABILITES**

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

	<b>2011</b>	2010
	<b>SAR'000</b>	SAR'000
AlBilad accounts	<b>3,521</b>	1,979
Time investments from customers and financial institutions	<b>21,427</b>	19,468
<b>Total</b>	<b><u>24,948</u></b>	<b><u>21,447</u></b>

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**19. FEES AND COMMISSION INCOME, NET**

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

	<b>2011</b>	2010
	<b>SAR'000</b>	SAR'000
<b>Fee and commission income</b>		
ATM and point of sale fee income	<b>82,044</b>	68,215
Brokerage commission	<b>25,871</b>	18,600
Letter of credit and guarantee fee	<b>15,574</b>	16,487
Remittance fee	<b>325,829</b>	243,696
Management fee (mutual fund and others)	<b>21,969</b>	23,427
Facilities management fee	<b>67,058</b>	42,596
Documentation fee	<b>20,138</b>	18,538
Others	<b>9,227</b>	6,457
<b>Total fee income</b>	<b>567,710</b>	<b>438,016</b>
<b>Fee and commission expenses</b>		
ATM and point of sale fee expenses	<b>101,270</b>	89,565
Fee paid to brokers	<b>2,840</b>	3,081
Others	<b>5,304</b>	3,491
<b>Total fee expenses</b>	<b>109,414</b>	<b>96,137</b>
<b>Fee and commission income, net</b>	<b>458,296</b>	<b>341,879</b>

**20. DIVIDEND INCOME**

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

	<b>2011</b>	2010
	<b>SAR'000</b>	SAR'000
Available-for-sale investments	<b>10,884</b>	3,478

**21. GAINS ON NON-TRADING INVESTMENTS, NET**

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

	<b>2011</b>	2010
	<b>SAR'000</b>	SAR'000
Available-for-sale investments	<b>7,396</b>	7,557

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

	<b>2011</b> <b>SAR'000</b>	2010 SAR'000
Gains on sale of property and equipment	<b>2,582</b>	166
Others	<b>1,928</b>	145
Total	<b>4,510</b>	<b>311</b>

**23. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the years ended December 31, 2011 and 2010 are calculated by dividing the net income for the year by 300 million shares outstanding as of December 31, 2011 and 2010.

**24. CASH AND CASH EQUIVALENTS**

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

	<b>2011</b> <b>SAR'000</b>	2010 SAR'000
Cash	<b>1,115,535</b>	772,976
Due from banks and other financial institutions (maturing within ninety days from acquisition)	<b>4,353,930</b>	2,335,040
Balances with SAMA (excluding statutory deposit)	<b>3,538,359</b>	733,848
<b>Total</b>	<b>9,007,824</b>	<b>3,841,864</b>

**25. SEGMENTAL INFORMATION**

Operating segments, based on customers, groups are identified on the basis of internal reports about components of the Bank 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 Bank's main business is conducted in the Kingdom of Saudi Arabia.

For management purposes, the Bank 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.



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**Treasury**

Dealing with other financial institutions and providing treasury services to all segments.

**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 Bank's 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	2011					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
<b>Total assets</b>	7,507,819	9,832,503	9,322,791	791	1,063,265	27,727,169
<b>Capital expenditures</b>	54,149	69	6	188	29,223	83,635
<b>Total liabilities</b>	14,094,315	8,952,875	412,581	3,892	847,256	24,310,919
<b>Net income from investing and financing assets</b>	350,844	321,881	18,581	-	11,680	702,986
<b>Fee, commission and other income, net</b>	444,918	86,274	74,610	42,940	21,780	670,522
<b>Total operating income</b>	795,762	408,155	93,191	42,940	33,460	1,373,508
<b>Impairment charge for financing assets</b>	81,509	170,733	-	-	-	252,242
<b>Depreciation and amortization</b>	77,181	10,172	965	371	-	88,689
<b>Total operating expenses</b>	650,848	334,907	32,259	25,869	-	1,043,883
<b>Net income for the year</b>	144,914	73,248	60,932	17,071	33,460	329,625

SAR'000	2010					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
<b>Total assets</b>	6,194,816	8,047,032	5,942,340	331	932,167	21,116,686
<b>Capital expenditures</b>	31,128	26	10	834	25,169	57,167
<b>Total liabilities</b>	11,867,061	5,461,089	500,191	277	185,107	18,013,725
<b>Net income from investing and financing assets</b>	271,964	290,725	61,199	-	859	624,747
<b>Fee, commission and other income, net</b>	299,299	62,557	66,087	32,956	13,486	474,385
<b>Total operating income</b>	571,263	353,282	127,286	32,956	14,345	1,099,132
<b>Impairment charge for financing assets</b>	23,319	218,984	-	-	-	242,303
<b>Impairment charge for investing and other financial assets</b>	-	-	47,244	-	-	47,244
<b>Depreciation and amortization</b>	90,934	14,816	3,594	1,578	185	111,107
<b>Total operating expenses</b>	590,080	322,365	66,521	23,245	4,601	1,006,812
<b>Net income (loss) for the year</b>	(18,817)	30,917	60,765	9,711	9,744	92,320

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**(b) The Bank's credit exposure by business segments is as follows:**

	<b>Retail banking segment</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Total</b>
<b>2011</b>				
<b>SAR'000</b>				
<b>Total asset</b>	<b>5,514,880</b>	<b>8,264,866</b>	<b>6,454,366</b>	<b>20,234,112</b>
<b>Commitments and Contingencies</b>	<b>-</b>	<b>1,422,325</b>	<b>-</b>	<b>1,422,325</b>
<b>2010</b>				
<b>SAR'000</b>				
<b>Total asset</b>	<b>4,436,012</b>	<b>7,853,814</b>	<b>4,032,405</b>	<b>16,322,231</b>
<b>Commitments and Contingencies</b>	<b>-</b>	<b>1,295,601</b>	<b>-</b>	<b>1,295,601</b>

Bank 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.

**26. 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. Exposing to risk centers in the banking business, and these risks are an inevitable consequence of participating in financial markets and products. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance with ultimate objective of enhancing the shareholders value.

The Bank's 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.

Risk management is governed by set of policies that are approved by the Board of directors which are reviewed regularly. Credit and Market risk are managed via identification, measurement and control of financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, operational risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk and price risk.

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**27. CREDIT RISK**

The Bank 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 monitors the market value of collateral, 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 financing by counter-party is provided in note 6(b). For details of the composition of financing refer to note 7. For commitments and contingencies refer to note 16. The information on the Bank's maximum credit and credit risk exposure by operating business segment and the total bank level is given in note 25(2).

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**a) Geographical Concentration****(i) The geographical distribution of major assets, liabilities, commitments and contingencies and credit risk as of December 31:**

<b>2011</b>	<b>Kingdom</b>	<b>Other GCC</b>		<b>South</b>		
<b>SAR'000</b>	<b>of Saudi</b>	<b>and Middle</b>	<b>Europe</b>	<b>East</b>	<b>Other</b>	<b>Total</b>
	<b>Arabia</b>	<b>East</b>		<b>Asia</b>	<b>countries</b>	
<b>Assets</b>						
Cash and balances with SAMA	5,766,435	12,206	12,102	-	43,959	5,834,702
Due from banks and other financial institutions, net	2,676,210	2,345,248	1,366,223	39,934	26,751	6,454,366
Investments, net	951,458	-	-	-	-	951,458
Financing, net	13,779,746	-	-	-	-	13,779,746
<b>Total</b>	<b>23,173,849</b>	<b>2,357,454</b>	<b>1,378,325</b>	<b>39,934</b>	<b>70,710</b>	<b>27,020,272</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	318,813	100,517	1,682	-	825	421,837
Customer deposits	23,037,934	-	-	-	-	23,037,934
<b>Total</b>	<b>23,356,747</b>	<b>100,517</b>	<b>1,682</b>	<b>-</b>	<b>825</b>	<b>23,459,771</b>
<b>Commitments and contingencies</b>	<b>2,745,394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,745,394</b>
<b>Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies</b>	<b>1,422,325</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,422,325</b>

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<b>2010 SAR'000</b>	<b>Kingdom of Saudi Arabia</b>	<b>Other GCC and Middle East</b>	<b>Europe</b>	<b>South East Asia</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with SAMA	2,425,158	29,744	2,715	-	39,665	2,497,282
Due from banks and other financial institutions, net	2,145,015	1,798,168	6,413	68,536	14,273	4,032,405
Investments, net	1,610,918	-	-	-	-	1,610,918
Financing, net	12,289,826	-	-	-	-	12,289,826
<b>Total</b>	<b>18,470,917</b>	<b>1,827,912</b>	<b>9,128</b>	<b>68,536</b>	<b>53,938</b>	<b>20,430,431</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	272,666	109,204	559	-	-	382,429
Customer deposits	16,932,415	-	-	-	-	16,932,415
<b>Total</b>	<b>17,205,081</b>	<b>109,204</b>	<b>559</b>	<b>-</b>	<b>-</b>	<b>17,314,844</b>
<b>Commitments and contingencies</b>	<b>2,973,506</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,973,506</b>
<b>Credit risk</b> (stated at credit equivalent amounts) on <b>Commitments and Contingencies</b>	<b>1,295,601</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,295,601</b>

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.

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- 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:

<u>2011</u> SAR'000	<u>Kingdom of Saudi Arabia</u>	<u>Other GCC and Middle East</u>	<u>Europe</u>	<u>South East Asia</u>	<u>Other countries</u>	<u>Total</u>
Non- performing financing assets	685,215	-	-	-	-	685,215
Provision for impairment on financing assets	884,078	-	-	-	-	884,078
Non- performing other financial assets	-	96,262	-	-	-	96,262
Provision for impairment on other financial assets	-	96,262	-	-	-	96,262
 <u>2010</u> SAR'000						
Non- performing financing assets	707,790	-	-	-	-	707,790
Provision for impairment On financing assets	633,029	-	-	-	-	633,029
Non- performing other financial assets	-	96,262	-	-	-	96,262
Provision for impairment on other financial assets	-	96,262	-	-	-	96,262

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**28. MARKET RISK**

Market risk is the risk that the fair value of 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:

	2011		2010	
	Saudi Riyal SAR '000	Foreign Currency SAR '000	Saudi Riyal SAR '000	Foreign Currency SAR '000
<b>Assets</b>				
Cash and balances with SAMA	5,766,435	68,267	2,425,159	72,123
Due from banks and other financial institutions, net	4,516,649	1,937,717	2,922,357	1,110,048
Investments, net	951,458	-	1,610,918	-
Financing, net	13,426,778	352,968	11,914,723	375,103
Property and equipment, net	328,436	-	341,890	-
Other assets	378,305	156	344,188	177
<b>Total</b>	<b>25,368,061</b>	<b>2,359,108</b>	<b>19,559,235</b>	<b>1,557,451</b>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions	4,150	417,687	34,345	348,084
Customer deposits	21,741,182	1,296,752	16,863,102	69,313
Other liabilities	838,087	13,061	684,726	14,155
Equity	3,416,250	-	3,102,961	-
<b>Total</b>	<b>25,999,669</b>	<b>1,727,500</b>	<b>20,685,134</b>	<b>431,552</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.

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**ii. Currency Position**

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

	<b>2011</b> <b>SAR '000</b> <b>Long/(short)</b>	<b>2010</b> <b>SAR '000</b> <b>Long/(short)</b>
US Dollar	<b>513,133</b>	1,014,424
Euro	<b>1,017</b>	(388)
Pakistan Rupees	<b>19,591</b>	5,985
Qatar Riyal	<b>53,861</b>	47,483
UAE Dirham	<b>9,024</b>	13,464
Bangladeshi Taka	<b>2,653</b>	10,660
Others	<b>32,329</b>	34,271
<b>Total</b>	<b><u>631,608</u></b>	<b><u>1,125,899</u></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:

<b>Market Indices</b>	<b>December 31, 2011</b>		<b>December 31, 2010</b>	
	<b>Change in equity price %</b>	<b>Effect in SAR '000</b>	<b>Change in equity price %</b>	<b>Effect in SAR '000</b>
Tadawul	± 10	<b>20,087</b>	± 10	16,006
Unquoted	± 2	<b>3,000</b>	± 2	3,000



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**29. LIQUIDITY RISK**

Liquidity risk is the risk that the Bank will be unable 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 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% (2010: 7%) of total demand deposits and 4% (2010: 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.

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

<b><u>2011</u></b> <b><u>SAR'000</u></b>	<b>Within 3</b> <b>Months</b>	<b>3 months</b> <b>to 1 year</b>	<b>One year to</b> <b>5 years</b>	<b>Over 5</b> <b>years</b>	<b>No fixed</b> <b>maturity</b>	<b>Total</b>
<b><u>Assets</u></b>						
Cash and balances with SAMA	4,653,894	-	-	-	-	4,653,894
Statutory deposit with SAMA	-	-	-	-	1,180,808	1,180,808
Due from banks and other financial institutions, net	5,329,915	1,124,451	-	-	-	6,454,366
Investments, net	200,107	400,264	-	-	351,087	951,458
Financing, net	2,719,249	4,454,573	5,694,561	911,363	-	13,779,746
Property and equipment, net	-	-	-	-	328,436	328,436
Other assets	-	-	-	-	378,461	378,461
<b>Total assets</b>	<b>12,903,165</b>	<b>5,979,288</b>	<b>5,694,561</b>	<b>911,363</b>	<b>2,238,792</b>	<b>27,727,169</b>
Due to banks and other financial institutions	421,837	-	-	-	-	421,837
Customers' deposits	21,868,799	1,167,635	1,500	-	-	23,037,934
Other liabilities	-	-	-	-	851,148	851,148
Shareholders' equity	-	-	-	-	3,416,250	3,416,250
<b>Total liabilities and equity</b>	<b>22,290,636</b>	<b>1,167,635</b>	<b>1,500</b>	<b>-</b>	<b>4,267,398</b>	<b>27,727,169</b>

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<u>2010</u> <u>SAR'000</u>	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	1,506,824	-	-	-	-	1,506,824
Statutory deposit with SAMA	-	-	-	-	990,458	990,458
Due from banks and other financial institutions, net	3,663,230	369,175	-	-	-	4,032,405
Investments, net	1,300,858	-	-	-	310,060	1,610,918
Financing, net	2,960,440	3,204,018	6,125,368	-	-	12,289,826
Property and equipment, net	-	-	-	-	341,890	341,890
Other assets	-	-	-	-	344,365	344,365
<b>Total assets</b>	<b>9,431,352</b>	<b>3,573,193</b>	<b>6,125,368</b>	<b>-</b>	<b>1,986,773</b>	<b>21,116,686</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions	382,429	-	-	-	-	382,429
Customers' deposits	15,403,022	1,380,524	148,869	-	-	16,932,415
Other liabilities	-	-	-	-	698,881	698,881
Shareholders' equity	-	-	-	-	3,102,961	3,102,961
<b>Total liabilities and equity</b>	<b>15,785,451</b>	<b>1,380,524</b>	<b>148,869</b>	<b>-</b>	<b>3,801,842</b>	<b>21,116,686</b>

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**b) Analysis of financial liabilities by the remaining contractual maturities as of December 31, are as follows**

<u>2011</u>	<u>Within 3</u>	<u>3 months</u>	<u>One year to</u>	<u>Over 5</u>	<u>No fixed</u>	
<u>SAR'000</u>	<u>Months</u>	<u>to 1 year</u>	<u>5 years</u>	<u>Years</u>	<u>Maturity</u>	<u>Total</u>
<b>Financial liabilities</b>						
Due to banks and other financial institutions	421,858	-	-	-	-	421,858
Customer deposits	21,868,824	1,177,063	1,509	-	-	23,047,396

2010

SAR'000

**Financial liabilities**

Due to banks and other financial institutions	382,516	-	-	-	-	382,516
Customer deposits	15,403,945	1,394,099	148,869	-	-	16,946,913

**30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and, willing parties, in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

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.

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<b>2011</b>	<u><b>Level 1</b></u>	<u><b>Level 2</b></u>	<u><b>Level 3</b></u>	<u><b>Total</b></u>
<b>SAR' 000</b>				

**Financial Assets**

Financial investments available for sale	<u>201,087</u>	<u>-</u>	<u>150,000</u>	<u>351,087</u>
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2010  
SAR' 000

**Financial Assets**

Financial investments available for sale	<u>160,060</u>	<u>-</u>	<u>150,000</u>	<u>310,060</u>
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Level 3 investments comprise of unquoted available-for-sale investments that are carried at cost, as their fair value cannot be reliably measured (Note 6 (c)).

The fair values of on-statement of financial position financial instruments are not significantly different from the carrying values included in the financial statements. The fair values of financing due from, 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 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.

**31. Staff compensations**

	<b>Number of Employees</b>	<b>Fixed Compensation SAR'000</b>	<b>Variable Compensation Paid in 2011</b>		
			<b>Cash SAR'000</b>	<b>Shares SAR'000</b>	<b>Total SAR'000</b>
Senior executives requiring SAMA no objection	8	10,773	2,938	-	2,938
Employees engaged in risk taking activities	1,595	160,775	7,248	-	7,248
Employees engaged in control functions	116	88,222	1,840	-	1,840
Other employees	739	54,674	4,872	-	4,872
<b>Total</b>	<u>2,458</u>	<u>314,444</u>	<u>16,898</u>	<u>-</u>	<u>16,898</u>
Variable Compensation accrued in 2011		25,039			
Other employee related benefits		109,494			
<b>Total Salaries and employee related expenses per financial statements</b>		<u>448,977</u>			

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 hinder the plans of the employee's existing unit.

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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 Remuneration Incentive 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 AlMograin – Member.
4. Mr. Mohammed bin Abdullah AlGwaiz – Member.
5. Mr. Khaled AlHathaal – 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.

**32. 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:

	<b>2011</b>	2010
	<b><u>SAR'000</u></b>	<u>SAR'000</u>
<b>a) Directors, and other major shareholders and their affiliates balances:</b>		
Bei ajel	<b>1,601,817</b>	711,054
Musharaka	<b>34,663</b>	102,855
Commitments and contingencies	<b>67,965</b>	8,103
Current accounts	<b>20,726</b>	24,538
Al Bilad account	<b>1,583</b>	8,159
Direct investments	-	90,001

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

	<b>2011</b>	2010
	<b><u>SAR'000</u></b>	<u>SAR'000</u>
<b>b) Bank's Mutual funds:</b>		
These are the outstanding balances with Bank's mutual funds as of December 31:		
Customer deposits	<b><u>5,274</u></b>	<u>6,202</u>

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FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010****c) 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:

	<b>2011</b> <b><u>SAR'000</u></b>	<b>2010</b> <b><u>SAR'000</u></b>
Income from financing	<b>21,233</b>	24,197
Income from commitments and contingencies	<b>743</b>	691
Management fees (AlBilad mutual funds)	<b>11,043</b>	13,332
Board of Directors' remunerations	<b>4,180</b>	4,091
Compensations, remuneration and bonuses and end of service benefits to executive management members	<b>37,304</b>	31,775

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

**33. CAPITAL ADEQUACY**

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank'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 daily by the Bank's management. SAMA requires to hold minimum level of regulatory capital and maintain a ratio of 8% of total regulatory capital to the risk-weighted assets.

	<b>(Unaudited )</b>	
	<b>2011</b> <b><u>SAR'000</u></b>	<b>2010</b> <b><u>SAR'000</u></b>
Credit Risk RWA	<b>17,182,708</b>	15,100,311
Operational Risk RWA	<b>2,167,026</b>	1,933,075
Market Risk RWA	<b>631,838</b>	1,126,288
Total Pillar-I RWA	<b>19,981,572</b>	<b>18,159,674</b>
Tier I Capital	<b>3,086,625</b>	3,010,642
Tier II Capital	<b>572,528</b>	155,335
Total Tier I & II Capital	<b>3,659,153</b>	<b>3,165,977</b>
<u>Capital Adequacy Ratio %</u>		
Tier I ratio	<b>15.45%</b>	<b>16.58%</b>
Tier I + Tier II ratio	<b>18.31%</b>	<b>17.43%</b>

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#### **34. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES**

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of five mutual funds with assets totaling SAR 795 million (2010: SAR 961 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. 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 32).

#### **35. BASEL II PILLAR 3 DISCLOSURES**

Certain additional quantitative disclosures are required under Basel II Pillar 3. These disclosures will be made available to the public on the Bank's website ([www.bankalbilad.com](http://www.bankalbilad.com)) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.

#### **36. ISSUED IFRS' BUT NOT YET EFFECTIVE**

##### **New or revised IAS/IFRS**

The Bank has chosen not to early adopt the following new/revised standards issued by IASB and is currently assessing their impact:

- **IAS 27 Separate Financial Statements (2011):** revised version of IAS 27 applicable from 1 January 2013 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*
- **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.
- **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 and is applicable from 1 January 2013. 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 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 and is applicable from 1 January 2013.



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- **IFRS 13 Fair value measurements:** Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard and is applicable from 1 January 2013. 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 and is applicable from 1 January 2013.

**Amendments to IAS/IFRS**

The Bank has chosen not to early adopt the following amendments to existing IAS/IFRS issued by IASB and is currently assessing their impact:

- **Amendment to IAS 19 Employee Benefits (2011):** Amends IAS 19 with revised requirements for pensions and other postretirement benefits, termination benefits and other changes and is applicable from 1 January 2013.
- **Amendments to IAS 1 Presentation of financial statements:** Amends IAS 1 to revise the way other comprehensive income is presented and is applicable from 1 January 2013.
- **Amendments to IFRS 7 Financial Instruments: Disclosure:** Amends the disclosure requirements in IFRS 7 to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32 and is applicable from 1 January 2013.
- **Amendments to IAS 32 Financial instruments presentation:** Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

**37. Employee share plan (ESP)**

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

Grant date	17 <sup>th</sup> December 2011
Maturity Date	1 <sup>st</sup> January 2014
Number of share offered on the grant date	159,000
Share price on the grant date (SAR)	19.60
Value of shares offered on grant date (SAR'000)	3,116
Vesting period	3 years
Vesting condition	Employees to remain in service
Method of settlement	Equity

The movement in the number of shares is as follows	2011
Beginning of the year	-
Granted during the year	159,000
Forfeited	-
Exercised	-
End of the year	159,000

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

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**38. COMPARATIVE FIGURES**

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

**39. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Bank's Board of Directors on 21 Rabi' Al-awwal 1433H (corresponding to 13 February, 2012).