

# 2010 Annual Report

بنك البلاد  
BANK ALBILAD



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بنك البلاد  
BANK ALBILAD





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



His Royal Highness  
**Crown Prince Sultan bin Abdulaziz Al Saud**  
Deputy Premier  
Minister of Defense and Aviation  
And Inspector General



His Royal Highness  
**Prince Naif bin Abdulaziz Al Saud**  
Second Deputy Premier  
Minister of Interior

# 2010

## Annual Report

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**H.E. Musaed Mohammad Al-Snani**  
Chairman



**Mr. Ibrahim Abdullah Al-Subeaei**  
Member



**Mr. Nasser Mohammad Al-Subeaei**  
Member



**Mr. Khaled Abdul Aziz Al-Mukairin**  
Member



**Mr. Khaled Abdul Rahman Al-Rajhi**  
Member



**Dr. Ibrahim Abdul Rahman Al-Barrak**  
Member



**Mr. Adib Abdullah Al-Zamil**  
Member



**Dr. Abdulrahman Al Humaid**  
Member



**Eng : Ali Bin Othman Al-Zaid**  
Member



**Mr .Abdulrhman Bin Mohammed Addas**  
Member



**Mr. Mohammed A. El-Kuwaiz**  
Member





## Our Vision

To be the most reputed Shariah based financial solutions provider meeting aspirations of our customers, employees and shareholders.



## Our Values

- **Honesty and Integrity:** We practice the highest ethical standards to honor our commitments to our customers, employees and shareholders.
- **Unequivocal Shariah authenticity:** We are transparent in dealing at highest standards of fairness with our colleagues, customers and shareholders.
- **Excellence in customer service:** We aim to realize highest customers' satisfaction by understanding their needs and providing them with the best possible solutions.
- **Team work:** Our strength and competitive advantage is and will always be our people. We will empower our people; promote a culture of self-responsibility and share ideas and experiences with them; and we will foster and recognize teamwork at all levels of our organization.
- **Corporate Social Responsibility:** We are committed to providing our colleagues with a safe and healthy working environment. At the same time, we will participate in community activities and especially support education and other worthy causes.





**Musaed M. Al-Snani**  
Chairman

**In the name of Allah, most gracious, most merciful**

**Praise be to Allah, and peace be upon Prophet Muhammad and His companions;**

The year 2010 witnessed many challenges that affected a number of economic sectors including the banking sector at both the global and local levels. However, Bank Albilad, with the grace of Allah, succeeded in completing its infrastructure and long-term projects. This enabled the bank to realize a net profit of SAR 92 million for the year 2010 compared to a net loss of SAR 248 million for the previous year. The Bank also succeeded in increasing number of its branches and remittance centers; expanding its e-banking services; developing the automated systems and providing a comprehensive set of Shariah-compliant products that satisfy the aspirations of our customers in finding financing and investment solutions which coincide with their banking needs and ambitions.

The financial statements as at the end of 2010 reflect the great efforts that contributed in enhancing the Bank's position and its various activities. The operation income reached SAR 1, 099 million compared to SAR 909 million at the end of the previous year; an increase of 21%. The net income from the investment and financing assets also increased to SAR 625 million compared to SAR 548 million as at the end of the previous year, with an increase of 14%.

The Bank's assets as at the end of the reported year also increase to SAR 21,117 million, with an increase of 21.3% over the previous year. The customer deposits increased by SAR 3,212 million to SAR 16,932 million representing an increase of 23.4% over the previous year. The shareholders equities as at the end of the reported year reached SAR 3,103 million compared to SAR 3,002 million as at the end of previous year.

The Bank continued to support its infrastructure. It concentrated on increasing the number of its branches to reach 75 compared to 67 at the end of the previous year. The number of remittance centers (Enjaz) also increased from 94 at the end of 2009 to 104 at the end of 2010 and the number of ATMs machines increased from 451 in 2009 to 492 ATMs as at the end of 2010.

It is noteworthy that the Bank has developed a strategic plan, which focuses on increasing the customer base and enhancing the E-services of the Bank. The Bank, as part of its strategy, redefined the targeted segments and the market to increase the customer base. Finally, I would like to express my sincere thanks and appreciation to The Custodian of the Two Holy Mosques, the Crown Prince, the Second Deputy and all authorities involved in supervising the banks' activities for their generous support for the Saudi banking sector. I would also thank the members of the Board of Directors and the employees of the Bank at large for their faithfulness and dedication and the Bank's stakeholders for their confidence in the Bank.

We pray to Allah for support and success.

The year 2010 witnessed significant achievements and activities carried out by the Bank's various segment and departments. Details of the major activities include:

## Retail Banking Group (RBG)

This year, the Bank applied a workflow strategy, addressing expansion of the branch network plan, which will contribute to the growth of deposits, improving and developing the systems and products. This has largely contributed to making the Retail Banking more flexible and dynamic than ever before. Also, the strategy contributed to rebuilding the RBG team for the purpose of achieving aggressive growth in the coming years.

The results were as follows:

### Deposits

With regard to customers deposits with the Retail Banking Group the total growth reached SAR 2 billion as at the end of 2010; and increase of 33% over the year 2009. This was mainly due to our interest in building and expanding our customer base in accordance with our strategy, rather than look for prompt profit generated by high deposits. During the year, a number of 96,783 accounts were opened with additional deposits reaching SAR 3.6 billion.

### Financing

During 2010 growth was made in the financing portfolio by more than 52% over the total portfolio balance achieved in five years. The total financing portfolio amounted to SAR 4.3 billion. The Financial Assets increased through new personal loans to more than 12 thousand customers by more than SAR 1.5 billion. This constitutes a growth in the customer base by more than 51%.

## Expansion

### Branches Network

Eight new branches were opened within the Bank branches network during 2010 in: Riyadh, Jeddah, Bisha, Qattif and Abha. These new modern branches will greatly help the Bank to serve customers and achieve the desired rate of growth. With the opening of these new branches, the size of the network has grown up to 105 branches (including 75 male branches and 30 female sections) with a market share of 6.74%.

### Enjaz

Among the major points of strength of Bank Albilad is "Enjaz" - the Bank's arm for remittance and foreign exchange activities. In 2010, Enjaz achieved breath-taking accomplishments with a high market share which enhanced its position as a major player with the highest growth levels in the Kingdom. During the year, Enjaz launched a suite of competing products which achieved outstanding success in the market. Among such products is the "Enjaz Easy" which was met with the utmost acceptance by customers. In addition, Enjaz succeeded in increasing its correspondents network across the world. It signed agreements with the most preferred correspondents by its customers. In line with its expansion plans of its network within the country, coupled with the increasing demand for its services, Enjaz, during 2010 opened 10 new centers around the Kingdom to cover new areas as well as to support its existence in such areas. Enjaz also started with the mobile center to increase the business which, in turn resulted in increased revenues in accordance with the set plan. In support of its new products, Enjaz added 117 new staff and 54 customer service employees. The overall outcome of the above reflected positively on its financial results achieved in 2010.



## Corporate Banking Group (CBG)

Corporate Banking Group is that group which serves corporate customers and businesses within all economic sectors, including wholesale and retail trade, contracting, manufacturing and services, and real estate finance and development. It also endeavors to offer a series of Shariah compliant corporate finance solutions to companies and establishments, tailored specifically to meet the needs of companies and their trade relations. CBG comprehensive products include; cash management, trade services, and corporate financing. It aims to build a strong brand name by adhering to the principles of the Islamic Shariah, focusing on the customer needs, diversifying income resources through various economic sectors and different segments of customers.

CBG has increased the total revenues by 18% mainly by increasing its indirect financing portfolio by 30%. Also, the increase in collecting fees generated by direct and indirect financing helped in reducing reliance on direct financing products as a major source of income. CBG also seeks to improve and diversify its corporate credit portfolio through enhancing hedging practices in lending and diversity of lending. CBG strictly observes the overall policy and provisions related to reserves concerning non-performing accounts as part of the Bank's policy to maintain a quality credit portfolio.

We look forward to continue, with the grace of Allah, adding new products and services that focus on building relationships and Shariah compliant mutual benefits with customers to meet their needs and strive to provide and expand distribution channels in order to provide efficiency and convenience to customers. This naturally serves the goals of the Bank's overall objectives. CBG is constantly striving to build a distinguished team of specialized human talents through attraction, retention and development of employees.

## Treasury

Treasury focuses on providing external and internal customers with investment services, FX transactions and hedging instruments, in addition to other ordinary services.

Bank Albilad's Treasury has maintained comfortable level of risk in managing liquidity and investment, despite the pressures on the banking sector in general and the low level of rates.

The Treasury focused on improving the level of customer service through establishing a sales department. It also strengthened its presence in the capital markets through establishing and boosting relationships with banks and concerned authorities.

The Treasury uses several products in investments, such as: Murabaha, Direct Investment, Bai Ajel (sale on credit), Power of Authority (PoA), Mudharabah accounts, selling currencies on credit and cash currency. However, Bank Albilad's Treasury is focusing on providing more products, such as hedge instruments and Sukuk.

## Risk Management

During 2010, the tasks of the Risk Management Group were restructured with a new vision to manage risks effectively by implementing a sound risk management framework and robust risk management practices, while ensuring that the business activities provide an appropriate balance of return for the risks assumed. The Bank's risk management framework is based on three pillars. They are: sound principles for risk management, organizational structures and prudent risk measurement and monitoring processes which are closely aligned with the banking activities so as to ensure that risks are kept within an acceptable level.

Based on SAMA guidelines and The International Bank for Settlements' Framework, the Bank has maintained an elaborate risk framework for risk measurement and management and has reorganized the risk management function as a separate, independent domain.

The Banking risk management process includes many risks such as credit risk, liquidity risk, operational risk and market risk. The Bank regularly reviews its risk management policies and systems to reflect changes in markets and products and to reach best practices.

### Credit Risks

Credit risk is the largest source of risk for the Bank. The Bank is exposed to credit risk through its financing and investing activities. Credit Risk function is divided into various units, which operate within an integrated framework of credit policies and procedures.

### Measurement of Credit Risks

The Banks measures the Credit risks with the principal objective to produce the most accurate possible quantitative and qualitative assessment of the credit risk to which the Bank is exposed. Bank Albilad uses Moody's credit rating system to help in internal rating of credit risk for corporate customers and to estimate the non-operating accounts, the expected default amount and the probable losses resulting from such default.

### Mitigation and Control of Credit Risk

The Bank applies many approaches to mitigate credit risks. Among the most important of these is performing analytical studies for the forecasted data to measure the probability of repayment by the customers.

Credit approvals are made by several Credit Committees composed of executive members commensurate with the credit risk degree and credit facilities volume for each approving authority.

In addition, the Bank collects collaterals against facilities whenever it is deemed necessary. The Bank usually leans to the best guarantees in terms of liquidity, applicability and compliance with the regulatory requirements. There are various forms of guarantees against credit facilities in the Bank. They include for example cash coverage, mortgage of some investments and assets for the benefit of the Bank, guarantees against facilities including financial, personal, or third-party guarantees, and putting

some commercial and residential real estate property under provisional custody. As for retail financing, it is based on salary transfer to the bank.

Furthermore, it shall be observed that there is no credit concentration. It shall also be assured that the volume of credit exposure is compliant with the criteria set forth in this connection; whether in terms of exposure to a specific party or to a specific sector (activity)

### Control and Reports

A comprehensive credit review for the financial solvency is made for all corporate customers having annual finance on a yearly basis. In addition, frequent review sessions and visit reports are regularly made for customers throughout the year. As for corporate customers with high credit risks, they are classified as customers requiring special control. Thereafter, such credit exposure will be subject to a careful and cautious follow up to mitigate it in a proper way. The portfolio of retail banking customers with consumer facilities and credit cards is comprehensively followed up and monitored by assessing the criteria established for this portfolio for each category separately.

The Bank includes credit provisions in its financial statements and records according to the internationally recognized IFRS for the accounts vulnerable for losses when there are indicators for the necessity of making such provisions which may affect the cash flow expected from such assets or investments. The Bank also prepares an overall monthly report on the Bank's portfolio including the credit concentrations for the purpose of reviewing and monitoring by the Bank's senior management.

### Market Risks

Market risks are defined as the risks resulting from the bank's exposure to financial loss due to adverse changes in the market prices which may affect the fair value of future cash flows. The market changes include Murabaha rates, foreign exchange rates and equity prices. In accordance with the international standards and SAMA guidelines, the portfolios of the Bank have been divided into two categories: The Trading Portfolio and the Investment Portfolio.



### Trading Portfolio

At present there are no exposures at the Bank for the Trading Portfolio except for foreign currency exchange rates in accordance with the Basel Committee and SAMA classifications. Exposure to the foreign currency exchange rates is resultant from coverage of the Bank's needs for foreign currencies.

### Investment Portfolio

The Investment Portfolio aims at achieving returns without reliance on short-term market price changes. The Bank sets forth a group of acceptable risk limits for market price changes governed by policies and procedures applicable and approved by both the senior management and Board of Directors of the Bank.

The Market Risk Management Department (MRD) monitors on a daily basis the bank's exposure to the market risks. The daily findings are submitted to the senior management on a daily basis and to the Assets and Liabilities Committee (ALCO) on a periodic basis for review. Further, the MRD performs stress testing to assess the effects of the exceptional market conditions in line with international applications and SAMA guidelines.

As for liquidity risks, they are risks resulting from the Bank's inability to meet its net financial requirements or meet the net financial requirements at an unacceptable cost. Liquidity risk may arise from reducing the credit assessment or economic changes and credit risk factors. Therefore, diversification of finance sources and maintaining an acceptable limit of liquidated assets mitigate the bank's exposure to the liquidity risk. The bank has enhanced its liquidity risk policies and framework by following the Basel Guidelines for the Sound Principles for Liquidity Risk Management and Supervision.

The Bank's ALCO undertakes a strategic role in monitoring the cash flow maturity profile and the liquidity reserve ratio to ensure adequacy and efficiency of the risk management. The liquidity control is monitored on a daily basis while regular liquidity stress testing is performed under normal and exceptional conditions whether such conditions are peculiar to the bank or due to external factors. In addition to regulatory

limits enforced by SAMA, the Bank has set internal limits to control liquidity risk in accordance with the Bank's approved policies and procedures.

Furthermore, the liquidity risks management's policies and procedures, which must be approved by ALCO and the Board of Directors, are revised on a periodic basis.

### Operational Risks

Operational Risks are defined as the risks of loss resulting from inadequate or failing internal processes, people and systems, or external events. This definition includes legal risks but not the strategic and reputation risks.

Operational risks are considered as one of the most major risk areas addressed in detail by Bazil Committee. The Bank management is committed to the application of the operational risk concept. For this purpose, it applies advanced approaches for measurement and management of the operational risks to enhance and strengthen control, limit risks, and minimize operations losses.

Presently, the bank applies the Basic Indicator Approach for the calculation of its operational capital reserves and focuses on analyzing and limiting operational risks in the activities of its key business.

The Operations Risk Management is primarily responsible for monitoring, assessing and managing the operations risks across the Bank. This includes all operational risks of the business units and support units.

Furthermore, The Operations Risk Management extends support to the business units and support units for capturing, analyzing, and standardizing the operational risks facing them. For that purpose, it applies and develops integrated action framework of policies and procedures aimed at:

- Understanding and preparing operational risk reports pursuant to the various activities of the Bank;
- Identifying the operational risks which have occurred; and
- Understanding and mitigating the probability of repeated operational risks and the financial impact thereof.

Also, The Operational Risks Management depends on the following pillars to achieve the objectives of the Bank:

- Self-assessment of the risk control;
- Identifying and analyzing data of the operational losses; and
- Key Indicators of Risks.

The Operational Risks Management implements a constant mechanism for risk identification, analysis and monitoring at all sector levels. Managers of such sectors have an effective role in using self-assessment for identification of the risks and evaluation of the efficiency of control and performance follow-up. Standard procedures are applied across the Bank for the recognition, assessment, analysis and reporting of risk-related reports. Such procedures are used to assist in identifying the control requirements needed to minimize the recurrence of risk events. The operational risk events are listed in a central database whilst periodic reports are prepared for senior management as well as other concerned authorities.

The Operational Risks Management also establishes key risk indicators for each business activity. This stage focuses on establishing effective indicators that help in analyzing the information related to the activities of the Bank.

The Bank has worked out an operational risk management framework commensurate with the general framework of the Internal Audit. The tasks of the Internal Audit put more focus and keenness on the efficiency of control in connection with operational risks across the Bank and submitting of periodic reports to the senior management and the Board of Directors.

Complementary to the plans for applying and developing a general framework for operational risk management across the Bank in compliance with the specific strategy of the Bank, the Bank has conducted an operational risk analysis and re-analysis at the business units level for the purpose of standardizing all operational risks already identified.

Procedures for listing and collecting of data for key risk indicators and operational-related losses were started in 2009. In addition to the self assessment of the risk control, such data play an effective role in mitigating the operations risks. In 2010,

focus was placed on assessing and further refining of control across the Bank. This, in turn, has resulted in an increased focus of the business units on the key risks faced by the Bank.

## Application of Basel II Guidelines

As a part of the initiative for implementing Basel II guidelines, the Bank has committed to evaluate the current risk framework and structure with respect to policies, operations, processes, data, and systems related to Basel II guidelines. Evaluation will also enable the Bank to analyze the content which currently meets the proposed organizational structure.

Bank Albilad's strategy is to completely implement the Basel II advanced approach, in addition to the evaluation process which will help the Bank identify the work to be undertaken, the procedural plan and the deliverables during the implementation of the Basel II Guidelines as per the advanced approach for credit, market, and operational risks.

This conversion includes the use of internal rating standards based on dealing with credit risk, market risk and a The Standardized Approach for operational risk. We are currently in the process of formulating an economic capital model to support the stance of the Bank in the worst scenarios of losses related to credit, market, and operations.

The Board of Directors has set general limits for the market risks while the Risk Management group set limits and directives for the business units reflecting the identification of the strategic risks and strategic goals based the Bank's commercial and banking policies. Besides, the ALCO will undertake monitoring on a periodic basis and discuss important issues within the scope of the framework of the market and liquidity risks.

The Bank also viewed the performance of the 'Internal Capital Adequacy Assessment Process' (ICAAP) to be presented to the Board and the senior management providing full coverage of all material risks within the framework of the corporate governance, the Internal Audit and the capital planning and management as well as the strategic



work plans, overall economy factors, and the culture of risks at the Bank.

Moreover, Bank Albilad shall work out firm policies and procedures for measuring, monitoring, and reporting all major risks. Effective capital planning shall be adopted to ensure that there is sufficient capital available for meeting the minimum statutory capital requirements on a parallel line with mitigating the discrepancies. The capital adequacy objective has been set forth in a parallel line with the strategy of the Bank, the action plan and the acceptable risks of the Bank.

Likewise, the ICAAP has been put into implementation according to SAMA and Basel II guidelines as well as the Bank's volume and structure. The ICAAP process underlies the strategy of safeguarding the capital level commensurate with the risks of the Bank for the purpose of achieving the appropriate equilibrium between risks and returns.

## Compliance

The vision of the Bank is clear in prioritizing adherence to the supervisory and regulatory guidelines and towards this end it has focused on the implementation of compliance policies across the bank. The Compliance Unit has commenced review of the Bank's policies, procedures, products, services, contracts, forms and agreements, in addition to reviewing and updating policies of all business departments and support units to ensure that they are in compliance with the regulatory guidelines.

Apart from providing compliance guidance to the business departments on business issues regularly, the Compliance Function is launched on the Bank's intranet to enhance compliance awareness and to inculcate the compliance culture among all staff members.

All customer transactions are brought under the umbrella of 'AML Monitoring System'. Transactions are regularly reviewed and monitored. Suspicious transactions are tracked, investigated and reported to the regulatory authorities (SAMA) and the Saudi Financial Investigation Unit (SA-FIU).

## Internal Audit

The Internal audit department proceeded with application of risk-based audit methodology, which was the result of a comprehensive risk assessment project done by internal audit department with the participation of the Audit Committee and executive management after which internal audit plan was adopted for three years (2009-2011). The Internal Audit Group issued comprehensive reports to all branches and units included in the 2010 plan. All remarks were studied and discussed with the concerned departments with appropriate solutions being worked out and reviewed with the Audit Committee and the Executive Management, and followed up on a continuous basis.

The Internal Audit Division focused on attracting professionals to work within the internal audit team, to accelerate the tasks and achieve the business goals within the specified timeframes as per the Internal Audit plan.

Also, work was completed on developing the internal audit guidelines which includes methodologies and activities of the internal audit work. It was approved by the Audit Committee. Work was also finalized in developing a mechanism for implementing the work processes using an advanced computerized system organizing and keeping the Internal Audit works and helping work out the future plans based on the data released by the system illustrating the work progress and statistics for all inputs. This also includes follow up of the progress in tackling the SAMA report remarks and carrying out the necessary audit for ensuring completion of the appropriate corrective processes according to the recommendations included in the report. It includes as well the follow up via the anti-forgery unit for all events of forgery and cheating and adoption of appropriate actions to deal with each event separately, conduct investigations, and coordinate with the concerned departments within the Bank and the official authorities.

## The Shariah Board and Shariah Group

The Bank is known for its commitment to provide Shariah-based solutions. This is one of the most significant values of the Bank. In this respect, the Shariah Group performs a vital role for the Bank and the Islamic Banking at large, through its close alignment with the business units to study Shariah-compliant products and solutions. The Shariah Group works with the businesses in conducting research into how we could improve these product and services to increase awareness about Shariah guidelines within and outside the Bank and provide specific training to the employees on the Shariah criteria applicable to products. All of these activities enable the Bank to achieve the main goal which is to be the best provider of Islamic banking products in the region.

The aforementioned efforts are based on the instructions and decisions issued by the Bank's Shariah Board which consists of six experts and specialized members in contemporary financial transactions. In order to expedite the work and take action, a preparatory committee consisting of four members from the Shariah committee was formed to prepare subjects of concern to the Shariah Board and to decide on urgent issues.

It is note-worthy that the Shariah Group is composed of two departments: The first one is the General Secretariat which is the contact between the Bank and the Shariah Board. It presents the topics and products submitted by the Bank departments to the Board and conducts research and study on them. The second department is the Shariah Control which ensures that all activities of the Bank are Shariah-compliant as per the decisions and guidelines issued by the Shariah Board. Periodic reports are prepared in this regard and submitted to the Shariah Board.

Within the year 2010, the Shariah Board held six meetings while the Predatory Committee held 13 meetings during which the products and agreements submitted by all departments of the Bank were discussed.

## Information Technology Division

Information Technology Division (IT) successfully achieved a group of goals in 2010 including launching several systems pertaining to the new products and services made available for customers via the various electronic channels and branches. This is in addition to the upgrading of numerous existing services and systems as well as updating the IT infrastructure to keep abreast with the IT strategy.

The most significant accomplishment during this year was winning the first operational certificate (PCI-DSS) at the level of Saudi banks in connection with protection of the banking credit card standards as well as the launching of the electronic banking channels for business and corporate sectors (Internet, auto-reply (IVR), and telephone banking). This is in addition to the renovation of the design of the Retail Banking Internet website for the purpose of upgrading the level of protection, security, and safety of the electronic operations. In this connection, the dual standard for user identification has been put into implementation for electronic channels and SMS notices have likewise been launched. As for the stock services, the sale of subscription shares has been made available via electronic channels (Internet, ATM, and telephone banking). For personal finance, it has been made possible to display the details of customer's existing finance products via the electronic channels (Internet and ATM). Also, there is the possibility for partial payment and early payment for personal finance products. Furthermore, joint guarantee letters systems have been launched as well as the second phase of permanent transfer order service. At the internal level, the IT infrastructure has been updated in the Head Office and the Emergency Center in accordance with the IT strategy.

The IT Group shall continue to strive for operational excellence in 2011 in line with its strategy. It is firmly positioned to meet the growing and diverse demands of the business, in order to position the Bank as one of the top performers in the kingdom.



## Human Resources

The Human Resource Division endeavors to be the prime strategic partner for all business units in the Bank for achieving both short-term and long-term strategic goals of the Bank. Therefore, HR Division focuses on attracting and retaining talented Saudi nationals as a mission to provide job opportunities for Saudis. These efforts are part of the bank's strategy to nurture a professional work environment that enables the Bank to achieve its objectives. The HRD has therefore put in place a plan of training and development to meet various businesses needs. Moreover, Special Development Programs for those talented who have high potential with readiness and willingness to assume leading roles in the bank including new graduates from universities and specialist higher institutes. This objective is pursued through a competitive salary scale and benefits to attract qualified staff with experience as well as outstanding university graduates to work in the bank. This is in addition to incentive programs adopted by the bank to maintain the distinguished staff

## Operations Group

The year 2010 was a year of challenges for the Operations Division to keep abreast with the state-of-the-art technology for implementing our operations and strive for completing our achievements and our process in 2009, in order to streamline our operations. The ITD understanding of the requirements and needs of our customers via the operations group led to the improvement and development of several services launched in a competitive manner and delivered to customers beyond their expectations.

In continuation of supporting the branches and retail banking, the Operation Group has undertaken review of all banking operations to make sure of their integrity and lawfulness. It has also undertaken updating the retail finance processes and mechanizing the manual procedures.

For serving corporate customers, the Operations Group has prepared a dedicated Trade Finance Center. Also the trade processes have been mechanized thereby re-

ducing the period required for implementing the customers' requests and as a result we have been able to open documentary credits and issue banking guarantees in shorter time-frames, which has led to high customer satisfaction rates.

The ATM network has been expanded and accordingly 41 new ATMs have been put into service in addition to many services offered to customers via the ATM and the Internet quite easily and conveniently in compliance with EMV system standards.

It goes without saying that the Bank has achieved the first operational certificate (PCI-DSS) Kingdom-wide.

## Administrative and Property Services

Admin and Property Division is responsible for implementing all projects of the Bank's properties, including the branches and Currency Exchange Branches (Enjaz) as well as all types of ATM across the Kingdom. The Division is also responsible for providing the administrative support required by the branches and departments of the Bank. This includes for example the tendering, issuance of purchase orders for all needs of the Bank, concluding agreements and contracts and monitoring the payments and financial dues of contractors and suppliers, implementing the security and safety systems, maintenance, cleaning, and hosting services, internal and external mail, documents storage services and follow up of extension of governmental services and finalization of their pertinent procedures. This is in addition to participation in submitting the budgetary estimates and studying the construction and management costs of the projects.

Last year, the Admin and Property Division tendered, implemented, commissioned and handed over several projects of the Bank (Albilad, Enjaz, Automatic Teller Machines, and other projects) at the various regions of the Kingdom as follows:



### First: Albilad Branches

Ten (10) branches were delivered as follows: (Hail, Abha-based King Khaled University, Bisha, Qateef, Abqaiq, Prince Sultan Street in Jeddah, Al-Murooj Quarter in Riyadh, Sahafa Quarter in Riyadh, Prince Muhammad bin Abdulaziz Street in Riyadh and Al-Majmaah).

### Second: Enjaz Projects

Twenty (20) branches were handed over in the following sites: (Al-Balad in Jeddah, Kakiyah in Makkah, expansion of Bani Malik branch in Jeddah, Bin Laden in Jeddah, Nuzhah in Makkah, Al-Ummal in Khobar, Jubail, Baljurashi, Transfer of Al-Baha branch, Tabuk Al-Mahrajan, Hail Industrial Estate, expansion of Al-Murooj branch in Riyadh, King Fahd Quarter in Riyadh, Ta'meer Commercial Development Center in Riyadh, Bin Salman Shopping Center in Riyadh, Shaqra, Aziziyah in Madinah, Mazahmiya, Sharafiya in Jeddah, and Al-Badaiye in Qassim).

### Third: Other projects

Many projects for the Bank have been handed over including the following: (Telephone Banking Division, Collection Division, Ladies Section for Branches, Trade Finance Center for Central Region, Private Banking Services in Western Region, Albilad Investment Co, Albilad Real Estate Co, Regional Management of Enjaz Branches, and amendments of the Head Office building).

### Fourth: ATM Project Implementation

- Following ATMs were implemented and changed Kingdom-wide:
  - Eighteen (18) Drive Through
  - Seven (7) Room Type
  - Twelve (12) Lobby
  - Twenty-eight (28) standalone ATM at branches
  - Eighteen (18) ATM outlets at the branches

Moreover, the entire team of Admin and Properties Division has presented new strategies, which have resulted in reducing the constructive/ operational /administrative overall expenses of the branches without compromising quality of services and improving the controlling measures.

### Legal group

This is a support specialist division undertaking legal tasks and affairs supporting the activities of all departments and branches of the Bank in compliance with the approved policy of the Bank. The objectives of the division include the protection of the interests, rights and assets of the Bank and to defend it vis-à-vis third parties. The division also provides legal advice and carries out legal actions and litigation to collect the rights of the Bank and defend its interests in the cases filed against the Bank for all the departments and branches of the Bank.

### Finance Group

During the year 2010 Financial Control Division implemented solutions for segment wise profitability, transfer pricing and cost allocation methodologies. This has assisted the management in getting more accurate MIS enabling them to make business decisions resulting in improved profitability.

Further, during the year a new ERP solution was implemented, for automated general ledger, fixed assets and payable solution. From an internal control point of view Financial Control Division improved the process of segmentation which has resulted in appropriate reporting on business line basis.





## Marketing Group

The year 2010 witnessed completion of lot of marketing projects. Marketing Group prepared studies and research for launching the campaign aimed at strengthening the status of the Bank. The communication campaign was launched at the end of February 2010 on the identity and entity of the Bank and on strengthening the core proposition of Bank, being the "Shariah-based" bank. The campaign was successfully launched. It was one of the most influential campaigns at the level of Saudi banks, and received highly favorable response. Success of the campaign is attributable to two major factors: The first factor is the focus on the mass media targeting Albilad customers and the second factor is using innovative methods in selected mass media used in the campaign. From customers' perspective, the Bank has become one of the leading banks in the field of delivering Islamic compliant banking solutions.

In addition, Marketing Group continues to conduct research and studies aimed at better understanding the market and market needs so that the Bank's present and future strategies may accordingly be drawn up to reflect in the products in terms of development, modernization and updating.

## Albilad Investment Company (ABIC)

Albilad Investment Company (ABIC) obtained on 25 May 2008 all necessary licenses from the Capital Market Authority (CMA) to carry out all investment activities including management, preserving and implementing of consultancy services and making arrangements for its customers. The company adopts the Bank's policies in offering a series of Shariah-based services and investment solutions. It also invests its accurate knowledge, experiences and unique relationships in the Saudi market in service of its customers and assisting them in achieving their desired objectives.

## Assets Management

The Assets Management Department consists of a highly qualified team who is committed to offer investment funds, portfolio management and special products services by employing local experiences, identifying the customers' needs, capturing the best investment opportunities, and providing high quality performance.

## Brokerage

The ABIC offers the Tadawul opportunity with the Saudi Stock Market through many easy-to-use, effective channels. Such channels include online Tadawul which allows customers to finalize their requests rapidly, accurately, and safely. The company also provides Tadawul service through the banking phone. ABIC also benefits from the services of a highly qualified, competent team of brokers.

## Investment Banking

Albilad Investment Company is a leading company in offering integrated services in corporate finance and investment banking services, including arrangements services, finance re-structuring, IPO undertaking and underwriting, all of which are accomplished by a specialized team with vast experience and professionalism.



**To: Bank AIBilad Shareholders**

**Assalamu alaikum warahmatullahi wabarakatuh,**

We are pleased to present the annual report and consolidated accounts of Bank AIBilad and its subsidiaries (The Bank) for the year ended December 31, 2010.

**Operational Results**

The Bank reported a net income of SAR 92 million for the year 2010, compared to a net loss of SAR 248 million for the last year. This was mainly due to increase in the revenue side where the Bank recorded operation income of SAR 1,099 million, as compared to SAR 909 million, a growth of 21 % over the previous year. Income from financing and investment activities increased to SAR 625 million, as compared to SAR 548 million, with an increase by 14% over the last year. These investments includes: Murabaha, Bai Ajel, Musharakah, Installment Sales, and Ijarah. The net fee of banking services reached SAR 342 million by the end of 2010, compared with SAR 280 million in last year, with an increase of 22.1%. The net foreign exchange income was SAR 121 million up by 63.5%.

The operating expenses on the other hand decreased by 13% at SAR 1,007 million, and the provisions for investing and financing activities also decreased by 20% to SAR 290 million in 2010 compared to SAR 363 million in 2009.

On the infrastructure side, the Bank during the year 2010 increased the number of branches to 75, compared to 67 at the end of the year 2009, remittance centers increased to 104 compared to 94 at the end of the year 2009 and ATMs to 492 compared to 451 at the end of the year 2009.

**Financial Position**

Total assets of the Bank at the end of 2010 were SAR 21,117 million, an increase of 21.3% compared with last year. The customer deposits at the end of the year, reached SAR 16,932 million, recording an increase of SAR 3,212 million, which is a healthy increase of 23.4%. The financing also increased to SAR 12,290 million compared to SAR 11,014 million reflecting an increase of 11.6%.

**Shareholders' Equity**

Shareholders equity stood at the end of the year 2010 at SAR 3,103 million, compared to SAR 3,002 million at the end of 2009. The number of ordinary shares is 300 million shares. The Capital Adequacy Ratio at the end of 2010 was at 17.43% compared to the minimum requirement of 8%, reflecting the strong financial position of the Bank.

**Financial Comparisons**

The following is an analysis of the major items of assets and liabilities:

(SAR in millions)

	2010	2009	2008	2007	2006
Net investment	1,611	1,534	1,883	1,349	517
Net financing	12,290	11,014	8,276	6,190	2,827
Total assets	21,117	17,411	16,052	16,636	11,281
Customer deposits	16,932	13,721	10,971	12,689	7,858
Total liabilities	18,014	14,409	12,839	13,532	8,257
Total Equity	3,103	3,002	3,213	3,104	3,024

The following analysis of the major items of income

(SAR in millions)

	2010	2009	2008	2007	2006
Net investment income	625	548	578	534	359
Net banking fees	342	280	230	177	254
Net foreign currency exchange gains	121	74	78	67	42
Total operating income	1,099	909	888	779	655
Total operating expenses (including Impairment charges)	1,007	1,157	763	706	477
Impairment in the value of investments and other financial assets	47	61	65	--	--
Impairment charge for financing assets	242	302	20	65	7
Net income for the year / period	92	(248)	125	73	178

## Major Activities

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

**Retail banking:** Includes services and products to individuals including deposits, financing, remittances and currency exchange.

**Corporate banking:** Includes services and products to Corporate and Commercial customers including deposits, financing and trade services

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

**Investment banking and brokerage:** Include investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

**Other:** All other support functions.

Major activities of the Bank for the year 2010 are summarized in the following table

(SAR in millions)

	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	6,195	8,048	5,942	-	932	21,117
Capital expenditures	31	-	-	1	25	57
Total liabilities	11,867	5,461	500	-	186	18,014
Total operating income	571	353	127	33	15	1,099
Impairment charge for financing assets	23	219	-	-	-	242
Impairment charge for other financial assets	-	-	47	-	-	47
Depreciation and amortization	91	15	4	1	-	111
Total operating expenses	590	322	67	23	5	1,007
Net income (loss) for the year	(19)	31	60	10	10	92

## Geographical Analysis of the Revenues

Analysis of the total revenue by region for the year 2010 is as follows:

(SAR in millions)

	Central	Western	Eastern	Total
Gross revenue	687	153	259	1,099

Essentially, all revenues of the Bank are from activities inside the Kingdom.

## Subsidiaries

In accordance with the Capital Market Authority (CMA) directives, the Bank established a wholly owned subsidiary (through direct and beneficial shareholding) 'AlBilad Investment Company', a Saudi limited liability company registered in the Kingdom of Saudi Arabia under Commercial Registration No (1010240489) issued on 11 Du Al-Qu'ada 1428 H (corresponding to November 20, 2007). The subsidiary took over the management of the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA.

It obtained approval from the CMA for commencement of operations on May 25, 2008. The Bank started consolidating the financial statements of the subsidiary effective from July 01, 2008.

The Bank has also established a wholly owned subsidiary, 'AlBilad Real Estate Company', a Saudi limited liability company registered in the kingdom of Saudi Arabia that obtained its Commercial Registration No (1010223341) issued on 24 Sha'aban 1427H (corresponding to September 17, 2006). The purpose of this company is to register the real estate collaterals that the Bank obtains from its customers.

## Future Plans

The Bank is focusing to expand the network of its branches, Enjaz centers (remittance centers) and Automated Teller Machine (ATM) across the Kingdom in order to increase the service channels to attract new customers and facilitate customer service. Further, services through various automated delivery channels will also be enhanced. Moreover, the Bank will also increase its suite of products to meet the customer need and to increase the customer base.

## Risk Management

The Bank is exposed to various risks, an essential part of the nature of banking business, monitoring and managing. These risks are monitored and managed through the Bank's Risk Group, which represents financial risk management, credit, market and operational risk. The details for these risks are mentioned in notes from 27 to 30 of the consolidated financial statements attached to Board of Directors report.

## Accounting Standards Applicable

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency ("SAMA") and with International Financial Reporting Standards ("IFRS"). The Bank also prepares its consolidated financial statements to comply with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia.

## Bank's Liabilities

The Bank does not have any loan obligations and has not issued any debt instruments.

## Corporate Governance by-laws in the Kingdom of Saudi Arabia

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

## The Board of Directors

The Board of Directors consists of 11 members, who were elected in the General Assembly meeting held on 25/04/1431 H, corresponding to April 10, 2010 for three years effecting from 03/05/1431 H corresponding to April 17, 2010.

The Board held five meetings during the year 2010 with the following attendance record of these meetings:

Date	Attendees
22/03/2010	Mr. Musaed Bin Mohammad Al-Snani, Mr. Ibrahim bin Abdullah Al Subaie, Mr. Nasser bin Mohammed Al Subaie, Mr. Khalid bin Abdul Aziz Al Mukairin, Dr. Ibrahim bin Abdul Rahman Al-Barrak, Dr. Abdul Rahman bin Ibrahim Al Hamid, Mr. Adib Abdullah Al Zamil, Mr. Khaled bin Abdulrahman Al-Rajhi, Mr. Mohammed bin Ahmed Zainal, Mr. Saleh Bin Mohammed Al Hajaj, Mr. Abdul Aziz Bin Hamad Al-Jumaih
10/04/2010	Mr. Musaed Bin Mohammad Al-Snani, Mr. Ibrahim bin Abdullah Al Subaie, Mr. Nasser bin Mohammed Al Subaie, Mr. Khalid bin AbdulAziz Al Mukairin, Dr.Ibrahim bin Abdul Rahman Al-Barrak , Dr. Abdul Rahman bin Ibrahim Al Hamid , Mr. Adib Abdullah Al Zamil, Mr. Khaled bin Abdulrahman Al-Rajhi, Mr. Abdulrhaman Mohammed Remzi Addas, Mr. Mohammed Abdullah AIQuwaiz.
03/05/2010	Mr. Musaed Bin Mohammad Al-Snani, Mr. Ibrahim bin Abdullah Al Subaie, Mr. Nasser bin Mohammed Al Subaie, Mr. Khalid bin AbdulAziz Al Mukairin, Dr.Ibrahim bin Abdul Rahman Al-Barrak , Dr.Abdul Rahman bin Ibrahim Al Hamid , Mr. Khaled bin Abdulrahman Al-Rajhi, Mr. Abdulrhaman Mohammed Remzi Addas.
26/09/2010	Mr. Musaed Bin Mohammad Al-Snani, Mr. Ibrahim bin Abdullah Al Subaie, Mr. Nasser bin Mohammed Al Subaie, Mr. Khalid bin AbdulAziz Al Mukairin, Dr.Ibrahim bin Abdul Rahman Al-Barrak, Dr.Abdul Rahman bin Ibrahim Al Hamid, Mr. Adib Abdullah Al Zamil, Mr. Khaled bin Abdulrahman Al-Rajhi, Eng. Ali Othman Al-Zaid, Mr. Abdulrhaman Mohammed Remzi Addas, Mr. Mohammed Abdullah AIQuwaiz.
12/12/2010	Mr. Musaed Bin Mohammad Al-Snani, Mr. Ibrahim bin Abdullah Al Subaie, Mr. Nasser bin Mohammed Al Subaie, Mr. Khalid bin AbdulAziz Al-Mukairin, Dr.Ibrahim bin Abdul Rahman Al-Barrak, Dr. Abdul Rahman bin Ibrahim Al Hamid, Mr. Khaled bin Abdulrahman Al-Rajhi, Eng. Ali Othman AlZaid, Mr. Abdulrhaman Mohammed Remzi Addas, Mr. Mohammed Abdullah AIQuwaiz.

## Memberships in other Joint Stock Companies

Member	The name of the company contributing
Musaed Bin Mohammad Al-Snani	- Saudi Hotels & Resort Areas
Ibrahim bin Abdullah Al Subaie	- Arab Cement Company - Makkah Construction and Development - Jabal Omar
Nasser bin Mohammed Al Subaie	- Saudi Hotels & Resort Areas
Khalid bin Abdulrahman Al-Rajhi	- STC - Saudi Cement Company - Saudi United Cooperative Insurance Co
Adib Abdullah Al Zamil	- Methanol Chemicals Co - Zamil Industrial Investment Co
Dr. Abdul Rahman Ibrahim Al Hamid	- Saudi Vitrified Clay Pipe
Mr. Abdulrhaman Mohammed Remzi Addas	- Al Sorayai Trading And Industrial Group Company
Eng. Ali Othman Al-Zaid	- Saudi Real Estate Co.

## The function of Board of Directors

Member	Position	Description
Mr.Musaed Bin Mohammad Al Sinani	Chairman	Independent
Mr.Ibrahim bin Abdullah Al Subaie	Member	Non-executive
Dr. Ibrahim bin Abdul Rahman Al-Barrak	Member	Independent
Dr. Abdul Rahman bin Ibrahim Al Hamid	Member	Independent
Eng. Ali Othman AlZaid	Member	Independent
Mr.Adib Abdullah Al Zamil	Member	Independent
Mr. Abdulrhaman Mohammed Remzi Addas	Member	Independent
Mr.Nasser bin Mohammed Al Subaie	Member	Non-executive
Mr.Khalid bin Abdul Aziz Al Mukairin	Member	Non-executive
Mr.Khaled bin Abdulrahman Al-Rajhi	Member	Non-executive
Mr. Mohammed Abdullah AlQuwaiz	Member	Independent

## Shareholding of Board Members, their Wives and Children

The shareholding of Board members, their wives and children as at the end of December 2010 compared to December 2009 is as follows:

	Name	December 2010	December 2009	Net change	Net change in percentage
1	Musaed Bin Mohammad Al Sinani	25,065	25,065	-	-
2	Ibrahim bin Abdullah Al Subaie	17,635	17,635	-	-
3	Ibrahim Bin Abdul Rahman Al-Barrak	40,566	20,166	20,400	101%
4	Abdul Rahman bin Ibrahim Al Hamid	1,000	1,000	-	-
5	Ali Othman AlZaid	1,000	-	1,000	100%
6	Adib Abdullah Al Zamil	7,500	7,500	-	-
7	Abdulrhaman Mohammed Remzi Addas	2,000	1,000	1,000	100%
8	Nasser bin Mohammed Al Subaie	252,350	200,000	52,350	26%
	Badariha Abdullah Mohammed Al Subaie(wife)	3,040	3,040	-	-
	Manal Nasser Mohammed Al Subaie (daughter)	160	160	-	-
9	Khalid bin AbdulAziz Al Mukairin	2,091,534	3,029,034	(937,500)	(31%)
10	Khaled bin Abdulrahman Al-Rajhi	9,100,000	9,100,000	-	-
11	Mohammed Abdulalh AlQuwaiz	2,000	-	2,000	100%
	Hifa Abdulalh Al Louhidan (wife)	160	160	-	-

## Shareholding of Top Executives, their Spouses and Children

The shareholding of top executives ,their spouses and their minor children as at the end of December 2010 compared to December 2009 is as follow:

	Name	December 2010	December 2009	Net change	Net change in percentage
1	Mr.Khalid bin Suleiman Al-Jasser	120	120	-	-
2	Mr.Eid Bin Flaih Al-Anazi	165	165	-	-
3	Mr.Abdul Rahman Bin Hamad Al Suqhayer	85	85	-	-
<b>Total number of shares</b>		<b>370</b>	<b>370</b>	<b>-</b>	<b>-</b>

## Remunerations and Allowances

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

Statement	Members of Non-Executive Board	Six Senior Executives including the Chief Executive and Chief Financial Officer
Salaries and remunerations	300,000	8,244,344
Periodic and annual allowances and rewards	3,490,500	4,258,260
<b>Total</b>	<b>3,790,500</b>	<b>12,502,605</b>

## Main Committees

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

### Executive Committee

The Executive Committee consists of the following five (5) members:

Member name	Position
Dr. Abdul Rahman bin Ibrahim Al Hamid	Chairman
Mr.Nasser bin Mohammed Al Subaie	Member
Mr.Khalid bin Abdul Aziz Al-Mukairin	Member
Mr.Khaled bin Abdulrahman Al-Rajhi	Member
Mr.Abdulrhaman Mohammed Remzi Addas	Member

The responsibilities of this Committee include the application of the Bank's policies, internal performance control, risk management and efficacy of managing the Bank's businesses. During the year 2010, 13 meeting of the Executive Committee were held.

## Audit Committee

The Audit Committee consists of the following four (4) members, one board member from the banks' Board of Directors, and three independent external members.

Member name	Position
Dr. Ibrahim bin Abdul Rahman Al-Barrak	Chairman
Dr. Ahmed Abdullah AlMogamis	Independent Members
Mr. Yosuf Bin Ahmed Al Burshaid	
Mr. Soliman Nasser AlHitlan	

The Committee is responsible for ensuring the Bank's compliance with the policies set by the Board and with all applicable regulations and by-laws. The Audit Committee reports directly to the Board and maintains coordination with the Bank's internal and external auditors. It also ensures compliance with all policies and takes the corrective measures in case of a breach or failure. During the year 2010, 9 meetings of the Audit Committee were held.

## Nominations and Rewards Committee

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

Member name	Position
Mr. Abdulrhaman Mohammed Remzi Addas	Chairman
Mr. Nasser bin Mohammed Al Subaie	Member
Mr. Khalid bin Abdul Aziz Al-Mukairin	Member
Mr. Mohammed Abdullah AlQuwaiz	Member
Mr. Khalid Saleh AlHathal	Independent Member

The Committees responsibilities are summarized in making recommendation to the Board for nominations for the Board membership; performing annual revisions of the requirements for special skills for the Board membership; and revising from time to time the Board structure. Its tasks also include submitting recommendations for desired changes;

ensuring timeliness of holding ordinary meetings of the Board and documenting its meetings; and verifying on a yearly basis the independence status of the independent members. The Nominations and Rewards Committee is also responsible for ensuring that there is no conflict of interests; setting up the reward and incentive policy for the Bank and its affiliates; and following up human resources related issues. During the year 2010, 6 meetings of the Nominations and Rewards Committee were held.

## Strategy Committee

The Strategy Committee consists of the following five members:

Member name	Position
Eng. Ali Othman AlZaid	Chairman
Mr. Khalid bin Abdul Aziz Al-Mukairin	Member
Mr. Mohammed Abdullah AlQuwaiz	Member
Mr. Khalid bin Suleiman Al-Jasser	Member
Mr. Abdulaziz Mohammed Al Subaie	Member

The Strategy Committee has been established recently based on the Board of Directors approval on September 26, 2010. Its task is to help and support the executive management to set the general strategy for the bank and review it from time to time. They also study and recommend any new ideas that may be important for the bank and the executive management. During the year 2010, 3 meetings of the Strategy Committee were held.





## The Internal Control System

The Internal Audit Division is working on the three years approved audit plan( 2009- 2011) by applying the audit methodology based on risk, which was a result of comprehensive risk evaluation plan for the bank made by internal audit division and audit committee.

Internal audit division made comprehensive reports for departments, branches and centers included in 2010 plan. All the observations have been studied and discussed with the relevant departments and a corrective solution plan was developed, which is followed up continuously.

Internal audit focused on the development of the internal audit manual to include the methodology and audit work approved by the audit committee. Internal audit developed an automated system to organize and save the work of internal audit and assist in future planning.

The internal audit division is following up with the relevant departments regarding SAMA comments to ensure the completion of required correction according to the report recommendations.

The internal audit division is also responsible for following up for any fraud cases detected and applying the necessary procedure to deal with each case individually and performing the investigation.

## Shariah commitment

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

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

## Shariah Board

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

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

During the year 2010, the Shariah Board held 6 meetings.

## Preparatory Committee

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

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

During the year 2010, the Preparatory Committee held 13 meetings.



## Department of the Shariah Board Secretariat

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

## Shariah Audit Department

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

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

## Means of Communication with Shareholders:

The Board adopts transparency as one of the Bank's main principles. Transparency, is one of the corporate governance fundamentals intended to ensure fair and equal treatment of all shareholders and define the Board's responsibility towards the Bank and shareholders in general. The Bank follows the standards and instructions of the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA) and the recommendations of the Basel Committee regarding corporate governance. It submits comprehensive information about its activities and businesses as part of the annual report and the brief initial financial statements announced in the local papers, on Tadawul web site, and on the Bank's web site: ([www.bankalbilad.com](http://www.bankalbilad.com)) which contains additional

information and features of the Bank. The Bank also pays considerable attention to inquiries received from its stakeholders and to answering such inquiries. Furthermore, it encourages its shareholders to attend the General Assembly annual meetings where the Bank's activities are discussed.

## Due to Regulatory Authorities

(SAR in millions)

	2010	2009
Zakat	3.6	-
Payments to GOSI	2.9	2.6

## Fines Imposed on the Bank by the Supervisory Authority

During 2010, one fine was imposed on Albilad Investment Company (a subsidiary of Bank Albilad) amounting SAR 50,000 from the Capital Market Authority as a result of not updating the Mutual Funds unit prices on Tadawul web site.

## Distribution of Dividends

In accordance with Article (42) of the Bank's Charter, net yearly profits are distributed after deducting all expenses and other costs and allocating the necessary reserves to cover the bad debts, investment losses and contingent commitments as may be decided by the Board.



## Human Resources

The total number of the Bank's employees as at the end of 2010 was 1,961 (One Thousand Nine hundred and sixty one employees) compared to 2,010 (Two thousand and ten employees) at the end of 2009. The Saudization percentage at the end of 2010 was 70.4%. The Bank recruits employees on the basis of high competence and banking experience. It has organized and implemented specialized training courses for newly recruited university and administrative institute graduates, in addition to developmental courses offered to all employees. During the year 1,584 staff members of the Bank have undergone various trainings.

## Employees Share Plan

A projected fund for procurement of shares for the Bank's employees has been drawn. It was financed by the Bank by SAR 42 million, in addition to the value of the unallocated shares. The Bank is working on the mechanism that governs activities of this fund.

## Contracts with Related Parties

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

## External Auditors

Messrs. PricewaterhouseCoopers and KPMG Al-Fozan and Al-Sadhan were appointed as the Bank's External Auditors for the year ended December 31, 2010, in the General Assembly meeting held on April 10, 2010.

## Responsibilities of the Board Members Towards the Financial Statements

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

- The accounting records have been prepared accurately.
- There is no doubt about the Bank's ability to carry on with its activities.
- As for the Internal Audit, the Board of Directors reaffirms that the bank maintains an organized mechanism to devise the bank related internal audit systems.

Finally, we take this opportunity to express our sincere thanks to The Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz, HRH Crown Prince Sultan bin Abdulaziz and to His Royal Highness Prince Naif bin Abdulaziz, Second Deputy Prime Minister and Minister of the Interior for their continued support and encouragement of the banking sector in the Kingdom. Thanks are also extended to the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency and the Capital Market Authority. We would like also to thank our shareholders, customers and employees for their relentless efforts aimed at improving and developing the Bank's performance towards achieving its objectives.





# 2010

## Annual Report

**Consolidated Financial  
Statements**

**For the year ended  
December 31, 2010**

**CONSOLIDATED STATEMENT  
OF FINANCIAL POSITION  
AS AT  
DECEMBER 31, 2010 AND 2009**

2010  
Annual Report

	Notes	2010 SAR'000	2009 SAR'000
<b>ASSETS</b>			
Cash and balances with SAMA	4	2,497,282	1,297,241
Due from banks and other financial institutions, net	5	4,032,405	2,826,483
Investments, net	6	1,610,918	1,534,439
Financing, net	7	12,289,826	11,014,115
Property and equipment, net	8	341,890	394,502
Other assets	9	344,365	344,412
<b>Total assets</b>		<b>21,116,686</b>	<b>17,411,192</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to SAMA	10	-	150,000
Due to banks and other financial institutions	11	382,429	48,327
Customer deposits	12	16,932,415	13,720,627
Other liabilities	13	698,881	490,056
<b>Total liabilities</b>		<b>18,013,725</b>	<b>14,409,010</b>
<b>Shareholders' equity</b>			
Share capital	14 (a)	3,000,000	3,000,000
Employee share plan	14(b)	(42,136)	(42,128)
Statutory reserve	15	52,246	29,166
Other reserve	6 & 16	23,611	15,144
Retained earnings		69,240	-
<b>Total shareholders' equity</b>		<b>3,102,961</b>	<b>3,002,182</b>
<b>Total liabilities and shareholders' equity</b>		<b>21,116,686</b>	<b>17,411,192</b>

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

**CONSOLIDATED INCOME  
STATEMENT  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009**

2010  
Annual Report

	Notes	2010 SAR'000	2009 SAR'000
<b>INCOME:</b>			
Income from investing and financing assets	18	646,192	572,254
Return on deposits and financial liabilities	19	(21,447)	(24,140)
Net income from investing and financing assets		624,745	548,114
Fee and commission income, net	20	341,879	279,533
Exchange income, net		121,162	73,680
Dividend income	21	3,478	4,448
Gains (Losses) on non-trading investments, net	22	7,557	(2,188)
Other operating income	23	311	5,468
<b>Total operating income</b>		<b>1,099,132</b>	<b>909,055</b>
<b>EXPENSES:</b>			
Salaries and employee related benefits		384,593	403,484
Rent and premises related expenses		100,337	106,403
Depreciation and amortization	8	111,107	139,111
Other general and administrative expenses		121,228	145,099
Impairment charge for investing and other financial assets		47,244	60,987
Impairment charge for financing assets	7(a)	242,303	302,360
<b>Total operating expenses</b>		<b>1,006,812</b>	<b>1,157,444</b>
<b>Net income (loss) for the year</b>		<b>92,320</b>	<b>(248,389)</b>
<b>Basic and diluted earning (loss) per share (Saudi Riyals)</b>	24	<b>0.31</b>	<b>(0.83)</b>

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2010  
Annual Report

	2010 SAR'000	2009 SAR'000
Net income (loss) for the year	92,320	(248,389)
<b>Other comprehensive income:</b>		
Available for sale financial assets - Net change in fair value	8,467	37,885
<b>Total comprehensive income / (loss) for the year</b>	<b>100,787</b>	<b>(210,504)</b>

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





**CONSOLIDATED STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

2010  
Annual Report

2010 SAR'000	Note	Share capital	Employee share plan	Statutory reserve	Other reserve	Retained earnings	Total
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		-	(8)	-	-	-	(8)
Transfer to statutory reserve	15	-	-	23,080	-	(23,080)	-
<b>Balance at the end of the year</b>		<b>3,000,000</b>	<b>(42,136)</b>	<b>52,246</b>	<b>23,611</b>	<b>69,240</b>	<b>3,102,961</b>

2009 SAR'000	Note	Share capital	Employee share plan	Statutory reserve	Other reserve	Retained earnings	Total
Balance at the beginning of the year		3,000,000	(41,974)	93,911	(22,741)	183,644	3,212,840
Total comprehensive loss for the year		-	-	-	37,885	(248,389)	(210,504)
Returned shares for employee share plan		-	(154)	-	-	-	(154)
Transfer from statutory reserve	15	-	-	(64,745)	-	64,745	-
<b>Balance at the end of the year</b>		<b>3,000,000</b>	<b>(42,128)</b>	<b>29,166</b>	<b>15,144</b>	<b>-</b>	<b>3,002,182</b>

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

**CONSOLIDATED STATEMENT  
OF CASH FLOWS  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009**

**2010**  
Annual Report

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

	Note	2010 SAR' 000	2009 SAR' 000
<b>OPERATING ACTIVITIES</b>			
Net income (loss) for the year		92,320	(248,389)
<b>Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:</b>			
(Gains) losses on non-trading investments, net		(7,557)	2,188
Adjustment of property and equipment, net		(1,494)	39,253
Depreciation and amortization		111,107	139,111
Impairment charge for investing and other financial assets		47,244	60,987
Impairment charge for financing assets		242,303	302,360
<b>Operating profit before changes in operating assets and liabilities</b>		<b>483,923</b>	<b>295,510</b>
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposits with SAMA		(206,098)	(148,702)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(999,801)	260,528
Investments		(50,575)	353,525
Financing		(1,518,014)	(3,040,391)
Other assets		47	(8,098)
<b>Net increase/ (decrease) in operating liabilities:</b>			
Due to SAMA		(150,000)	(675,000)
Due to banks and other financial institutions		334,102	(590,771)
Customer deposits		3,211,788	2,749,582
Other liabilities		208,825	86,250
<b>Net cash from (used in) operating activities</b>		<b>1,314,197</b>	<b>(717,567)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		(159,294)	-
Proceeds from sales of non-trading investments		149,414	18,293
Purchase of property and equipment		(57,167)	(38,840)
Proceeds from sale of property and equipment		166	3,366
<b>Net cash (used in) investing activities</b>		<b>(66,881)</b>	<b>(17,181)</b>
<b>FINANCING ACTIVITIES</b>			
(Returned) shares for employee share plan		(8)	(154)
<b>Net cash (used in) financing activities</b>		<b>(8)</b>	<b>(154)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>1,247,308</b>	<b>(734,902)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>2,594,556</b>	<b>3,329,458</b>
<b>Cash and cash equivalents at end of the year</b>	25	<b>3,841,864</b>	<b>2,594,556</b>
Income received from investing and financing assets		605,479	505,008
Return paid on deposits and financial liabilities		18,522	35,697
<b>Supplemental non cash information</b>			
Net changes in fair value reserve		8,467	37,885

## 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 75 banking branches (2009: 67) and 104 exchange and remittance centers (2009: 94) 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.

### 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.

**(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.

**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:

- 1) IAS 27 consolidated and separate financial statements (amended 2008). The amendment deal primarily with the accounting for change in ownership interests in subsidiaries after control is obtain , the accounting for the loss of control of subsidiaries , and the allocation of profit or loss to controlling and non-controlling interests in subsidiaries .
- 2) Improvements to IFRSs 2009 – amendments to applicable and relevant standards and interpretations.

**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, 2010, non-controlling interest of 1% of net assets in AIBilad Investment Company is "not presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position. AIBilad 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.

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 the 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) Investments and financing**

**i) Investments** - The Bank classifies its principal 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 those intended to be held for an unspecified period of time, which may be sold in response to need for liquidity. 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 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.

**ii) 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.

## f) Impairment of financial assets

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 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 counterparties 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.

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.

### **g) 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, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. 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.

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.

### **h) 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.

### **i) Zakat and Withholding Tax**

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

Zakat is not charged to the Bank's consolidated 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.

**j) 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.

**k) 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.

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.

**l) 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. Leases entered into by the Bank as a lessor are all operating leases.

**m) 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.

**n) Property and equipment**

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. 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:

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.

**o) Customer deposits**

Customer deposits, which are non-commission bearing accounts, are stated initially at fair value of the amount received and subsequently are measured at amortized cost.





**p) Investment management services**

The Bank offers investment management 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.

**q) 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.

**4. CASH AND BALANCES WITH SAMA**

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

	2010 SAR'000	2009 SAR'000
Cash in hand	772,976	468,272
Statutory deposit	990,458	784,360
Other balances	733,848	44,609
<b>Total</b>	<b>2,497,282</b>	<b>1,297,241</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 are 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:

	2010 SAR'000	2009 SAR'000
Current accounts	129,654	80,010
Commodity murabaha	3,999,013	2,795,491
Provision for impairment on commodity murabaha	(96,262)	(49,018)
	<b>3,902,751</b>	<b>2,746,473</b>
<b>Total</b>	<b>4,032,405</b>	<b>2,826,483</b>

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

	2010 SAR'000	2009 SAR'000
Balance at beginning of the year	49,018	-
Provided during the year	47,244	49,018
Balance at end of the year	<b>96,262</b>	49,018

**6. INVESTMENTS, NET**

Investments comprise the following as of December 31:

2010 SAR' 000	Quoted	Unquoted	Total
<b>Available-for-sale investments</b>			
Equities	121,873	150,000	271,873
Mutual fund	38,187	-	38,187
	160,060	150,000	310,060
<b>Held at amortized cost</b>			
Commodity murabaha with SAMA	-	1,300,858	1,300,858
	160,060	1,450,858	1,610,918

2009 SAR' 000	Quoted	Unquoted	Total
<b>Available-for-sale investments</b>			
Equities	116,314	150,000	266,314
Mutual fund	17,741	-	17,741
	134,055	150,000	284,055
<b>Held at amortized cost</b>			
Commodity murabaha with SAMA	-	1,250,384	1,250,384
	134,055	1,400,384	1,534,439

a) Movement in other reserves is summarized as follows:

	2010 SAR' 000	2009 SAR' 000
Balance at beginning of the year	15,144	(22,741)
Provided during the year	8,467	37,885
<b>Balance at the end of the year</b>	<b>23,611</b>	<b>15,144</b>

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

	2010 SAR' 000	2009 SAR' 000
Corporate	271,873	266,314
Banks and other financial institutions	38,187	17,741
SAMA	1,300,858	1,250,384
<b>Total</b>	<b>1,610,918</b>	<b>1,534,439</b>

c) Equities reported under available-for-sale investments include unquoted shares for SAR 150 million (2009: 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:

2010 SAR' 000	Performing	Non performing	Total	Provisions	Net 2010
<b>Held at amortized cost</b>					
Bei ajel	6,244,515	628,775	6,873,290	(554,911)	6,318,379
Installment sales	4,451,825	29,727	4,481,552	(45,540)	4,436,012
Ijarah	375,103	-	375,103	-	375,103
Musharakah	1,143,622	49,288	1,192,910	(32,578)	1,160,332
<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>

2009 SAR' 000	Performing	Non performing	Total	Provisions	Net 2010
<b>Held at amortized cost</b>					
Bei ajel	6,703,827	581,690	7,285,517	(340,608)	6,944,909
Installment sales	2,893,789	17,665	2,911,454	(22,269)	2,889,185
Ijarah	375,093	-	375,093	-	375,093
Musharakah	803,064	29,762	832,826	(27,898)	804,928
<b>Total</b>	<b>10,775,773</b>	<b>629,117</b>	<b>11,404,890</b>	<b>(390,775)</b>	<b>11,014,115</b>

## a) Impairment charge for financing assets:

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

	2010 SAR' 000	2009 SAR' 000
Balance at beginning of the year	390,775	91,644
Provided during the year	242,303	302,360
Amounts written off during the year	(49)	(3,229)
Balance at end of the year	633,029	390,775

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

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

2009 SAR' 000	Performing financing	Non- perform- ing financing	Provisions	Financing, net
Commercial	1,869,591	17,597	(15,734)	1,871,454
Industrial	1,251,888	366,674	(262,684)	1,355,878
Building and construction	2,790,475	6,867	(4,779)	2,792,563
Transportation and com- munication	18,211	-	-	18,211
Services	239,314	59,842	(58,430)	240,726
Agriculture and fishing	558,055	-	-	558,055
Personal	2,893,789	17,665	(22,269)	2,889,185
Other	1,154,450	160,472	(26,879)	1,288,043
Total	10,775,773	629,117	(390,775)	11,014,115

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

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.

Grades	2010 SAR' 000	2009 SAR' 000
Excellent	879,448	381,399
Good	5,753,906	4,059,100
Satisfactory	832,506	1,926,706
Fair risk	4,111,389	3,724,265
Watch list	484,045	545,075
Total	12,061,294	10,636,545

**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:

2010 SAR' 000	Bei Ajel	Installment sales	Ijarah	Musharakah	Total
Individually impaired loan	628,775	29,727	-	49,288	707,790
Fair value of collateral	619,591	1,210	-	72,493	693,294

2009 SAR' 000	Bei Ajel	Installment sales	Ijarah	Musharakah	Total
Individually impaired loan	581,690	17,665	-	29,762	629,117
Fair value of collateral	522,220	2,531	-	8,465	533,216

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

2010 SAR' 000	Bei Ajel	Installment sales	Ijarah	Musharakah	Total
1 to 30 days	-	119,506	-	-	119,506
31 to 90 days	2,352	23,828	-	8,085	34,265
91 to 180 days	-	-	-	-	-
Above 180 days	-	-	-	-	-
Total	2,352	143,334	-	8,085	153,771
Fair value of collateral	2,352	59,217	-	-	61,569

2009 SAR' 000	Bei Ajel	Installment sales	Ijarah	Musharakah	Total
1 to 30 days	25,007	45,768	-	16,944	87,719
31 to 90 days	-	13,535	-	13,099	26,634
91 to 180 days	24,875	-	-	-	24,875
Above 180 days	-	-	-	-	-
Total	49,882	59,303	-	30,043	139,228
Fair value of collateral	167,695	-	-	16,017	183,712

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:

2010 SAR' 000	Bei Ajel	Mush- araka	Ijarah	Installment sales	Total
Real estate	2,263,150	91,800	-	1,175,721	3,530,671
Shares and investment	1,607,089	327,772	-	-	1,934,861
Third party guarantee	2,484,210	643,455	-	-	3,127,665
Unsecured	518,841	129,883	375,103	3,305,831	4,329,658
<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>

2009 SAR' 000	Bei Ajel	Musharaka	Ijarah	Installment sales	Total
Real estate	2,429,052	108,721	-	760,028	3,297,801
Shares and investment	1,779,323	284,739	-	-	2,064,062
Third party guarantee	1,957,983	265,758	-	-	2,223,741
Unsecured	1,119,159	173,608	375,093	2,151,426	3,819,286
<b>Total</b>	<b>7,285,517</b>	<b>832,826</b>	<b>375,093</b>	<b>2,911,454</b>	<b>11,404,890</b>

## 8. PROPERTY AND EQUIPMENT, NET

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

SAR '000	Leasehold improve- ments	Equip- ment and furniture	Computer hardware and software	Total 2010	Total 2009
<b>Cost:</b>					
January 1	345,710	166,545	287,556	799,811	838,124
Additions during the year	23,982	18,899	14,286	57,167	47,277
Adjustments / disposal	(45)	(128)	-	(173)	(85,590)
<b>At December 31</b>	<b>369,647</b>	<b>185,316</b>	<b>301,842</b>	<b>856,805</b>	<b>799,811</b>
<b>Accumulated depreciation and amortization:</b>					
January 1	103,536	108,984	192,789	405,309	300,732
Charge for the year	34,743	50,242	26,122	111,107	139,111
Adjustments / disposal	(1,286)	(184)	(31)	(1,501)	(34,534)
<b>At December 31</b>	<b>136,993</b>	<b>159,042</b>	<b>218,880</b>	<b>514,915</b>	<b>405,309</b>
<b>Net book value:</b>					
<b>At December 31, 2010</b>	<b>232,654</b>	<b>26,274</b>	<b>82,962</b>	<b>341,890</b>	
<b>At December 31, 2009</b>	<b>242,174</b>	<b>57,561</b>	<b>94,767</b>		<b>394,502</b>

Leasehold improvements include work-in-progress as of December 31, 2010 amounting to SAR 11 Million (2009: SAR 16 million).

## 9. OTHER ASSETS

Other assets comprise the following as of December 31:

	Note	2010 SAR' 000	2009 SAR' 000
Prepaid rental expenses		11,736	29,316
Advances to suppliers		11,879	11,518
Management fee receivable		5,764	4,993
Other	9.1	314,986	298,585
<b>Total</b>		<b>344,365</b>	<b>344,412</b>

9.1 Included in "Other" is an amount of SAR 280 million (2009: SAR 280 million) representing cost of land purchased by the Bank. SAMA has authorized the Bank to hold the land partly for its own use and to sell remaining part, and the decision of the Board of Directors in this respect is pending.

## 10. DUE TO SAMA

Due to SAMA comprise the following as of December 31:

	2010 SAR' 000	2009 SAR' 000
Cash management account with SAMA	-	150,000

The above amount represents borrowing from SAMA against cash management facility available to Islamic banks.

## 11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2010 SAR'000	2009 SAR'000
Current accounts	4,753	10,821
Time investments	377,676	37,506
<b>Total</b>	<b>382,429</b>	<b>48,327</b>

## 12. CUSTOMER DEPOSITS

Customer deposits comprise the following as of December 31:

	Notes	2010 SAR'000	2009 SAR'000
Current accounts	12.1	11,372,006	9,532,335
AlBilad accounts		2,518,512	3,043,370
Customers' time investments		2,779,786	963,916
Other deposits	12.2	262,111	181,006
<b>Total</b>		<b>16,932,415</b>	<b>13,720,627</b>

12.1 Current accounts include foreign currency deposits of SAR 34 million which mainly comprise of amount in USD (2009: SAR 40 million).

12.2 Other deposits include collateral on behalf of the Bank's mutual funds of SAR 6 million (2009: SAR 4 million) and margins held for irrevocable commitments of SAR 256 million (2009: SAR 177 million).

### 13. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	2010 SAR'000	2009 SAR'000
Accounts payable	483,203	319,353
Accrued expenses - Staff	86,266	77,562
Accrued operating expenses	55,933	47,642
Other	73,479	45,499
<b>Total</b>	<b>698,881</b>	<b>490,056</b>

### 14. SHARE CAPITAL

a) The authorized issued and fully paid capital of the Bank consists of 300 million shares of SAR 10 each. (2009: 300 million shares of SAR 10 each)

#### b) Employee share plan

The Bank plans to establish an employee compensation program in the form of a share option scheme, the formation of which has been approved by the Board of Directors ("the Board") in its meeting held on November 13, 2006.

In addition to the original subscription of 310,295 shares, the Board resolved to purchase an additional one million shares for this plan. This purchase was made in 2006 at a total cost of SAR 39 million. SAMA has given its initial approval for this plan however the terms of the plan are still in the process of being finalized.

	SAR in million	Numbers of shares
Total employee share plan	42	1,311,110

These shares are disclosed under shareholders' equity in the statement of financial position and will be transferred to 'Employee Share Plan' once finalized.

### 15. 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 23 million (2009: Nil) has been transferred to the statutory reserve. The statutory reserve is not currently available for distribution.

### 16. OTHER RESERVE

Other reserve represents the net unrealized revaluation gains/(losses) of available for sale investments. These reserves are not available for distribution.

### 17. COMMITMENTS AND CONTINGENCIES

#### a) Legal proceedings

As of December 31, 2010, 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, 2010, the Bank had capital commitments of SAR 38 million (2009: SAR 25 million) relating to leasehold improvements on leased branches.

### 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 investments.

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:

2010 SAR'000	Less than 3 months	From 3 months to 12 months	From 1 to 5 years	Total
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>

2010 SAR'000	Less than 3months	From 3 months to 12 months	From 1 to 5 years	Total
Letters of credit	298,185	215,217	2,569	515,971
Letters of guarantee	126,053	589,194	726,598	1,441,845
Acceptances	211,545	44,455	16,689	272,689
Underwriting	-	300,000	-	300,000
<b>Total</b>	<b>635,783</b>	<b>1,148,866</b>	<b>745,856</b>	<b>2,530,505</b>

The outstanding unused portion of commitments, as of December 31, 2010, which can be revoked at any time by the Bank amounts to SAR 3.5 million (2009: SAR 2.7 million).

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

	2010 SAR'000	2009 SAR'000
Corporate	2,868,052	2,161,793
Financial institutions (Guarantees)	72,444	67,394
Other	33,010	301,318
<b>Total</b>	<b>2,973,506</b>	<b>2,530,505</b>



**d) Operating lease commitments**

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

	2010 SAR'000	2009 SAR'000
Less than one year	59,200	50,000
One year to five years	210,840	167,622
Over five years	57,236	82,528
<b>Total</b>	<b>327,276</b>	<b>300,150</b>

**e) Restricted investment accounts**

	2010 SAR'000	2009 SAR'000
Under Wakalah arrangement	188,409	771,724

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) The Department of Zakat and Income Tax (DZIT) conducted an inspection of the Bank for calculation of the Zakat due for the year ended December 31, 2006, 2007 and 2008. As per the assessments, the DZIT disallowed financing and other financial assets for the year 2006 and arbitrarily disallowed certain expenses for the years 2007 & 2008 which resulted in a Zakat base of SAR 2.53 billion, SAR 2.6 billion and SAR 2.66 billion and Zakat liability of SAR 63.3 million, SAR 62.5 million and SAR 60.9 million as against an amount of SAR 1.7 million, SAR 2.4 million and SAR 5.5 million determined by the Bank for those years respectively. The Bank has filed appeals against the assessment for the year 2006 and in the process of filing appeal against assessments for 2007 and 2008. The estimated amount of Zakat liability for the years ended December 31, 2009 and 2010, based on the assumption applied by the DZIT amounts to SAR 70 million and 69 million, respectively.

Zakat due from the shareholders for the year ended December 31, 2010 amounted to SAR 3.6 million (2009: SAR 5.4 million). Zakat will be paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

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

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

	2010 SAR'000	2009 SAR'000
Held at amortized cost Investment		
Commodity murabaha with SAMA	3,807	10,911
Commodity murabaha with banks and financial institutions	18,314	29,453
Financing		
Bei ajel	313,877	320,004
Installment sales	266,139	165,323
Ijarah	3,610	6,937
Mushrakah	40,445	39,626
<b>Total</b>	<b>646,192</b>	<b>572,254</b>

**19. RETURN ON DEPOSITS AND FINANCIAL LIABILITIES**

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

	2010 SAR'000	2009 SAR'000
AlBilad accounts	1,979	7,925
Time investments from customers and financial institutions	19,468	16,215
<b>Total</b>	<b>21,447</b>	<b>24,140</b>

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

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

	2010 SAR'000	2009 SAR'000
<b>Fee and commission income</b>		
ATM and point of sale fee income	68,215	60,111
Brokerage commission	18,600	28,843
Letter of credit and guarantee fee	16,487	11,451
Remittance fee	243,696	189,602
Management fee (mutual fund and others)	23,427	25,250
Facilities management fee	42,596	38,330
Documentation fee	18,538	11,585
Others	6,457	1,158
<b>Total fee income</b>	<b>438,016</b>	<b>366,330</b>
<b>Fee and commission expenses</b>		
ATM and point of sale fee expenses	89,565	80,290
Fee paid to brokers	3,081	4,893
Others	3,491	1,614
<b>Total fee expenses</b>	<b>96,137</b>	<b>86,797</b>
<b>Fee and commission income, net</b>	<b>341,879</b>	<b>279,533</b>

**21. DIVIDEND INCOME**

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

	2010 SAR'000	2009 SAR'000
Available-for-sale investments	3,478	4,448

**22. GAINS (LOSSES) ON NON-TRADING INVESTMENTS, NET**

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

	2010 SAR'000	2009 SAR'000
Available-for-sale investments	7,557	(2,188)

**23. OTHER OPERATING INCOME**

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

	2010 SAR'000	2009 SAR'000
Gains on sale of property and equipment	166	1,352
Others	145	4,116
<b>Total</b>	<b>311</b>	<b>5,468</b>

## 24. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for the years ended December 31, 2010 and 2009 are calculated by dividing the net income (loss) for the year by 300 million shares outstanding as of December 31, 2010 and 2009.

## 25. CASH AND CASH EQUIVALENTS

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

	2010 SAR'000	2009 SAR'000
Cash	772,976	468,272
Due from banks and other financial institutions (maturing within ninety days from acquisition)	2,335,040	2,081,675
Balances with SAMA (excluding statutory de- posit)	733,848	44,609
<b>Total</b>	<b>3,841,864</b>	<b>2,594,556</b>

## 26. SEGMENTAL INFORMATION

Operating segments 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

Includes services and products to individuals, including deposits, financing, remittances and currency exchange.

### Corporate banking

Services and products including deposits, financing and trade services to corporate and commercial customers.

### Treasury

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:

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

<b>2009 SAR'000</b>	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	4,313,299	8,291,522	3,991,445	77,738	737,188	17,411,192
Capital expenditures	29,336	482	7	-	17,452	47,277
Total liabilities	11,376,405	2,296,542	187,506	377,930	170,627	14,409,010
Total operating income	376,511	331,493	148,767	35,445	16,839	909,055
Impairment charge for financing assets	22,269	280,091	-	-	-	302,360
Impairment charge for investing and other financial assets	-	-	60,987	-	-	60,987
Depreciation and amortization	109,558	13,839	3,668	11,868	178	139,111
Total operating expenses	638,507	379,462	71,193	16,153	52,129	1,157,444
Net income (loss) for the year	(261,996)	(47,969)	77,574	19,292	(35,290)	(248,389)

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

2010 SAR'000	Retail banking segment	Corporate & Private banking	Treasury	Total
Total asset	4,436,012	7,853,814	5,333,263	17,623,089
Commitments and Contingencies	-	1,300,117	-	1,300,117

  

2009 SAR'000	Retail banking segment	Corporate & Private banking	Treasury	Total
Total asset	2,889,185	8,124,930	4,076,867	15,090,982
Commitments and Contingencies	-	1,119,724	-	1,119,724

Bank credit exposure is comprised of due from bank and other financial institutions, investments and financing.

## 27. 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.

## 28. 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 17. The information on the Bank's maximum credit exposure by operating business segment is given in note 26(b). The information on maximum credit risk exposure is provided in note 26(b).

### a) Geographical Concentration

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

2010 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
<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 SAMA	-	-	-	-	-	-
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>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 (stated at credit equivalent amounts) on Commitments and Contingencies</b>	<b>1,295,601</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,295,601</b>

2009 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
<b>Assets</b>						
Cash and balances with SAMA	1,297,241	-	-	-	-	1,297,241
Due from banks and other financial institutions, net	2,082,644	677,850	18,157	20,347	27,485	2,826,483
Investments, net	1,534,439	-	-	-	-	1,534,439
Financing, net	11,014,115	-	-	-	-	11,014,115
<b>Total</b>	<b>15,928,439</b>	<b>677,850</b>	<b>18,157</b>	<b>20,347</b>	<b>27,485</b>	<b>16,672,278</b>
<b>Liabilities</b>						
Due to SAMA	150,000	-	-	-	-	150,000
Due to banks and other financial institutions	48,327	-	-	-	-	48,327
Customer deposits	13,720,627	-	-	-	-	13,720,627
<b>Total</b>	<b>13,918,954</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,918,954</b>
<b>Commitments and contingencies</b>	<b>2,530,505</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,530,505</b>
<b>Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies</b>	<b>1,119,724</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,119,724</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.

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:

2010 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Non- performing financing assets	707,790	-	-	-	-	707,790
Provision for impairment on financ- ing assets	(633,029)	-	-	-	-	(633,029)
Net non- performing financing assets	74,761	-	-	-	-	74,761
Non- performing other financial assets	-	96,262	-	-	-	96,262
Provision for impairment on other financial assets	-	(96,262)	-	-	-	(96,262)
Net non-performing other financial assets	-	-	-	-	-	-

2009 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Non- performing financing assets	629,117	-	-	-	-	629,117
Provision for impairment On financing assets	(390,775)	-	-	-	-	(390,775)
Net non- performing financing assets	238,342	-	-	-	-	238,342
Non- performing other financial assets	146,024	96,262	-	-	-	242,286
Provision for impairment on other financial assets	(11,969)	(49,018)	-	-	-	(60,987)
Net non-performing other financial assets	134,055	47,244	-	-	-	181,299

## 29. 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:

	2010 SAR '000		2009 SAR '000	
	Saudi Riyal	Foreign Currency	Saudi Riyal	Foreign Currency
<b>Assets</b>				
Cash and balances with SAMA	2,425,159	72,123	1,274,973	22,268
Due from banks and other financial institutions, net	2,922,357	1,110,048	2,028,954	797,529
Investments, net	1,610,918	-	1,534,439	-
Financing, net	11,914,723	375,103	10,639,022	375,093
Property and equipment, net	341,890	-	394,502	-
Other assets	344,188	177	344,412	-
<b>Total</b>	<b>19,559,235</b>	<b>1,557,451</b>	<b>16,216,302</b>	<b>1,194,890</b>
<b>Liabilities and equity</b>				
Due to SAMA	-	-	150,000	-
Due to banks and other financial institutions	34,344	348,084	10,552	37,775
Customer deposits	16,863,102	69,313	13,665,922	54,705
Other liabilities	684,726	14,155	477,071	12,985
Equity	3,102,961	-	3,002,182	-
<b>Total</b>	<b>20,685,133</b>	<b>431,552</b>	<b>17,305,727</b>	<b>105,465</b>

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

## (ii) Currency Position

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

	2010 SAR '000 Long/(short)	2009 SAR '000 Long/(short)
US Dollar	1,014,424	925,502
Euro	(388)	(2,565)
UAE Dirham	13,464	3,844
Bangladeshi Taka	10,660	(13,951)
Others	87,739	176,595
<b>Total</b>	<b>1,125,899</b>	<b>1,089,425</b>

The Bank has performed a sensitivity analysis 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 reasonably possible changes in levels of equity indices and the value of individual stocks.

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

Market Indices	December 31, 2010		December 31, 2009	
	Change in equity price %	Effect in SAR '000	Change in equity price %	Effect in SAR '000
Tadawul	± 5	8,003	± 5	6,703
Unquoted	± 2	3,000	± 2	3,000

### 30. 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% (2009: 7%) of total demand deposits and 4% (2009: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

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



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

2010 SAR '000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA	1,506,824	-	-	-	-	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>

2009 SAR '000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA	512,881	-	-	-	-	512,881
Statutory deposit with SAMA	-	-	-	-	784,360	784,360
Due from banks and other financial institutions, net	2,081,675	744,808	-	-	-	2,826,483
Investments, net	1,250,384	-	-	-	284,055	1,534,439
Financing, net	2,162,142	4,361,329	4,096,354	394,290	-	11,014,115
Property and equipment, net	-	-	-	-	394,502	394,502
Other assets	-	-	-	-	344,412	344,412
<b>Total assets</b>	<b>6,007,082</b>	<b>5,106,137</b>	<b>4,096,354</b>	<b>394,290</b>	<b>1,807,329</b>	<b>17,411,192</b>
<b>Liabilities and equity</b>						
Due to SAMA	150,000	-	-	-	-	150,000
Due to banks and other financial institutions	48,327	-	-	-	-	48,327
Customer deposits	13,018,022	702,605	-	-	-	13,720,627
Other liabilities	-	-	-	-	490,056	490,056
Shareholders' equity	-	-	-	-	3,002,182	3,002,182
<b>Total liabilities and equity</b>	<b>13,216,349</b>	<b>702,605</b>	<b>-</b>	<b>-</b>	<b>3,492,238</b>	<b>17,411,192</b>

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

2010 SAR '000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 Years	No fixed Maturity	Total
<b>Financial liabilities</b>						
Due to banks and other financial institutions	382,516	-	-	-	-	382,516
Customer deposits	15,403,945	1,394,099	148,869	-	-	16,946,913

2009 SAR '000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 Years	No fixed Maturity	Total
<b>Financial liabilities</b>						
Due to SAMA	150,000	-	-	-	-	150,000
Due to banks and other financial institutions	48,327	-	-	-	-	48,327
Customer deposits	13,017,834	711,795	-	-	-	13,729,629

### 31. 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.

2010 SAR' 000	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial investments available for sale	160,060	-	150,000	310,060

2009 SAR' 000	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial investments available for sale	134,055	-	150,000	284,055

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 and due to banks 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.

### 32. STAFF COMPENSATIONS

Categories of Employee	No. of Employees	Fixed Compensation	Variable Compensation	Total Compensation	Forms of payment
Senior Executives (requiring SAMA no Objection)	7	8,251	1,618	9,869	Account transfer
Employees engaged in risk taking activities (including client facing staff)	1,450	151,412	2,618	154,030	Account transfer
Employees engaged in control functions	97	23,859	1,542	25,401	Account transfer
Other employees	407	63,028	6,222	69,250	Account transfer
<b>Total</b>	<b>1,961</b>	<b>246,550</b>	<b>12,000</b>	<b>258,550</b>	

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.

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.

### 33. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

	2010 SAR' 000	2009 SAR' 000
Bei ajel	711,054	900,843
Musharaka	102,855	6,242
Commitments and contingencies	8,103	20,123
Current accounts	24,538	40,240
Al Bilad account	8,159	8,386
Direct investments	90,001	381

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

#### b) Bank's Mutual funds:

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

	2010 SAR '000	2009 SAR '000
Customer deposits	6,202	3,930

#### 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:

	2010 SAR '000	2009 SAR '000
Income from financing	24,197	16,960
Management fees (AlBilad mutual funds)	13,332	16,420
Board of Directors' remunerations	3,791	3,529
Compensations, remuneration and bonuses and end of service benefits to executive management members	31,775	22,418

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

### 34. 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.

	(Unaudited )	
	2010 SAR '000	2009 SAR '000
Credit Risk RWA	15,100,311	13,489,386
Operational Risk RWA	1,933,075	1,779,640
Market Risk RWA	1,126,288	1,107,638
Total Pillar-I RWA	18,159,674	16,376,664
Tier I Capital	3,010,642	3,250,571
Tier II Capital	155,335	(235,617)
Total Tier I & II Capital	3,165,977	3,014,954
Capital Adequacy Ratio %		
Tier I ratio	16.58%	19.85%
Tier I + Tier II ratio	17.43%	18.41%

### 35. 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 961 million (2009: SAR 1,028 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 33).

### 36. 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.

### 37. ISSUED IFRS' BUT NOT YET EFFECTIVE

The Bank has chosen not to early adopt IFRS 9, "Financial instruments", part of which has been issued, and is mandatory for compliance for the Bank's fiscal year beginning January 1, 2013. The Bank is currently assessing the implication of the standard on the Group and timing of its adoption.

The Bank has chosen not to early adopt revised IAS 24 Related Party Disclosure and Improvements to IFRSs 2010 – amendments to applicable and relevant standards and interpretations, which are applicable for annual periods beginning on or after January 1, 2011 and early adoption is permitted.

### 38. COMPARATIVE FIGURES

Certain 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 2 Rabi' Al-awwal 1432H (corresponding to 5 February, 2011).



### 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, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated income statement, the consolidated statements of comprehensive income, changes in 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 36, nor the information related to "Basel II 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 Articles of Association. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### 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 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 consolidated financial position of the Bank and its subsidiaries as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions 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 Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

#### PricewaterhouseCoopers

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**Mohammed A. Al Obaidi**  
Certified Public Accountant  
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**Tareq A. Al Sadhan**  
Certified Public Accountant  
Registration Number 352



February 5, 2011  
(Rabiul Awwal 2, 143)



# Basel II Quantitative Disclosure

## AS AT 31 DECEMBER 2010

2010  
Annual Report

SAR'000

TABLE 2: CAPITAL STRUCTURE	
Components of capital	Amount
<b>Core capital - Tier I:</b>	
Eligible paid-up share capital	3,000,000
Eligible reserves	10,642
Legal reserves	29,167
Other reserves	(18,525)
Retained earnings	-
<b>Total Tier I</b>	<b>3,010,642</b>
Qualifying general provisions	63,015
Interim profits	92,320
<b>Total Tier II</b>	<b>155,335</b>
<b>Total eligible capital</b>	<b>3,165,977</b>

SAR'000

TABLE 3: CAPITAL ADEQUACY		
Portfolios	Amount of exposures	Capital requirements
<b>Sovereigns and central banks:</b>		
SAMA and Saudi Government	1,720,452	-
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	3,902,750	101,904
Corporates	4,579,529	366,362
Retail non-mortgages	3,276,045	196,563
Small Business Facilities Enterprises (SBFE's)	30,414	1,825
<b>Mortgages</b>		
Residential	1,172,927	93,834
Commercial	1,920,945	153,676
Securitized assets	-	-
Equity	1,610,917	24,805
Past Due	6,007	481
Others	2,959,714	164,567
<b>Total</b>	<b>21,179,700</b>	<b>1,104,016</b>

SAR'000

TABLE 3: CAPITAL ADEQUACY					
	Return Rate Risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Standardised approach	-	-	90,103	-	<b>90,103</b>

SAR'000

TABLE 3: CAPITAL ADEQUACY	
Capital Requirements for Operational Risk* (Table 3, (e))	
Particulars	Capital requirement
Basic indicator approach	154,646

TABLE 3: CAPITAL ADEQUACY		
Particulars	Total capital ratio	Tier 1 capital ratio
%		
Top consolidated level	17.43	16.58

SAR'000

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES		
Portfolios	Total gross credit risk exposure	Average gross credit risk exposure over the period
Sovereigns and central banks:		
SAMA and Saudi Government	1,720,452	1,099,329
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	3,902,750	3,407,363
Corporates	6,955,660	6,826,672
Retail non-mortgages	3,276,045	2,821,747
Small Business Facilities Enterprises (SBFE's)	71,879	40,582
Mortgages		
Residential	1,172,927	895,133
Commercial	1,920,945	1,707,876
Securitized assets	-	-
Equity	1,610,917	1,585,192
Past Due	6,007	95,597
Others	2,959,714	2,960,074
<b>Total</b>	<b>23,597,296</b>	<b>21,439,565</b>

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TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES							
Portfolios	Geographic area						Total
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Others countries	
Sovereigns and central banks:							
SAMA and Saudi Government	1,720,452	-	-	-	-	-	1,720,452
Others	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	2,145,015	1,757,735	-	-	-	-	3,902,750
Corporates	6,955,660	-	-	-	-	-	6,955,660
Retail non-mortgages	3,276,045	-	-	-	-	-	3,276,045
Small Business Facilities Enterprises (SBFE's)	71,879	-	-	-	-	-	71,879
Mortgages							
Residential	1,172,927	-	-	-	-	-	1,172,927
Commercial	1,920,945	-	-	-	-	-	1,920,945
Securitized assets	-	-	-	-	-	-	-
Equity	1,610,917	-	-	-	-	-	1,610,917
Past Due	6,007	-	-	-	-	-	6,007
Others	2,757,936	70,176	9,128	-	68,536	53,938	2,959,714
<b>Total</b>	<b>21,637,783</b>	<b>1,827,911</b>	<b>9,128</b>	<b>-</b>	<b>68,536</b>	<b>53,938</b>	<b>23,597,296</b>

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TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

Portfolios	Industry sector												Total
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	
Sovereigns and central banks:													
SAMA and Saudi Government	1,720,452	-	-	-	-	-	-	-	-	-	-	-	1,720,452
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	3,902,750	-	-	-	-	-	-	-	-	-	-	3,902,750
Corporates	-	-	560,135	1,175,942	-	-	2,301,028	1,187,513	6,281	460,126	-	1,264,635	6,955,660
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	3,276,045	-	3,276,045
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	71,879	-	-	-	-	71,879
Mortgages													
Residential	-	-	-	-	-	-	-	-	-	-	1,172,927	-	1,172,927
Commercial	-	-	-	-	-	-	-	1,920,945	-	-	-	-	1,920,945
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	1,300,857	42,388	10,500	70,514	3,781	3,879	2,068	-	22,808	3,281	841	150,000	1,610,917
Past Due	-	-	-	-	-	-	-	-	-	-	-	6,007	6,007
Others	-	-	-	-	-	-	-	-	-	-	-	2,959,714	2,959,714
<b>Total</b>	<b>3,021,309</b>	<b>3,945,138</b>	<b>570,635</b>	<b>1,246,456</b>	<b>3,781</b>	<b>3,879</b>	<b>2,303,096</b>	<b>3,180,337</b>	<b>29,089</b>	<b>463,407</b>	<b>4,449,813</b>	<b>4,380,356</b>	<b>23,597,296</b>

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TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES										
Residual Contractual Maturity Breakdown (Table 4, (e))										
Portfolios	Maturity breakdown									Total
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	No Maturity	
Sovereigns and central banks										
SAMA and Saudi Government	729,994	990,458	-	-	-	-	-	-	-	1,720,452
Others	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	300,299	2,772,187	461,089	369,175	-	-	-	-	-	3,902,750
Corporates	137,999	576,435	1,210,103	1,802,406	1,390,791	999,144	470,773	368,009	-	6,955,660
Retail non-mortgages	39,673	79,862	143,043	217,809	430,787	1,598,400	765,840	631	-	3,276,045
Small Business Facilities Enterprises (SBFE's)	1,486	6,347	11,181	17,085	10,304	15,150	6,211	4,115	-	71,879
Mortgages										
Residential	6,198	8,312	13,410	20,480	42,553	180,432	195,607	705,935	-	1,172,927
Commercial	12,186	-	719,613	99,298	547,984	393,837	148,027	-	-	1,920,945
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	510,172	300,187	800,558	-	-	-	-	-	-	1,610,917
Past Due	6,007	-	-	-	-	-	-	-	-	6,007
Others	26,156	31	549,697	-	621,698	65,344	104,084	-	1,592,704	2,959,714
<b>Total</b>	<b>1,770,170</b>	<b>4,733,819</b>	<b>3,908,694</b>	<b>2,526,253</b>	<b>3,044,117</b>	<b>3,252,307</b>	<b>1,690,542</b>	<b>1,078,690</b>	<b>1,592,704</b>	<b>23,597,296</b>

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**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**

Impaired Loans, Past Due Loans and Allowances (Table 4, (f))

Industry sector	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180	180-360	Over 360	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	-
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	22,443	-	22,443	-	-	-	5,611	-	5,611	-
Manufacturing	361,852	361,852	-	-	298,815	63,037	116,907	-	363,517	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	-	-	-	-	-	-	-	-	-	-
Building and construction	6,251	6,252	-	2,201	-	4,050	372	-	5,151	-
Commerce	61,496	33,442	-	-	-	33,442	24,694	-	40,428	-
Transportation and communication	-	-	-	-	-	-	-	-	-	-
Services	57,401	57,401	-	-	48,382	9,019	914	-	59,343	-
Consumer loans and credit cards	29,727	29,727	-	7,717	6,762	15,248	9,269	-	21,243	24,297
Others	168,620	-	38,387	-	-	-	34,243	-	74,721	38,718
<b>Total</b>	<b>707,790</b>	<b>488,674</b>	<b>60,830</b>	<b>9,918</b>	<b>353,959</b>	<b>124,796</b>	<b>192,010</b>	<b>-</b>	<b>570,014</b>	<b>63,015</b>

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**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**

Impaired Loans, Past Due Loans And Allowances (Table 4, (g))

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-100	180-360	Over 360		
Saudi Arabia	707,790	60,830	9,919	353,959	124,795	570,014	63,015
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Others countries	-	-	-	-	-	-	-
<b>Total</b>	<b>707,790</b>	<b>60,830</b>	<b>9,919</b>	<b>353,959</b>	<b>124,795</b>	<b>570,014</b>	<b>63,015</b>

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**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**

Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h))

Particulars	Specific allowances	General allowances
Balance, beginning of the year	378,004	12,772
Amounts set aside (or reversed) during the period	221,452	20,801
Transfers between allowances	(29,442)	29,442
Balance, end of the year	570,014	63,015



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TABLE 5 (STA): CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Particulars	Risk buckets									Deducted
	0%	20%	35%	50%	75%	100%	150%	Other risk weights	Unrated	
Sovereigns and central banks:										
SAMA and Saudi Government	1,720,452	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	2,258,595	-	1,644,155	-	-	-	-	-	-
Corporates	-	-	-	-	-	6,955,660	-	-	-	-
Retail non-mortgages	-	-	-	-	3,276,045	-	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	71,879	-	-	-	-	-
Mortgages										
Residential	-	-	-	-	-	1,172,927	-	-	-	-
Commercial	-	-	-	-	-	1,920,945	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	1,300,857	-	-	-	-	310,060	-	-	-	-
Past Due	-	-	-	-	-	6,007	-	-	-	-
Others	902,629	-	-	-	-	2,057,085	-	-	-	-
<b>Total</b>	<b>3,923,938</b>	<b>2,258,595</b>	<b>-</b>	<b>1,644,155</b>	<b>3,347,924</b>	<b>12,422,684</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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TABLE 7 (STA): CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDIZED APPROACH		
Credit Risk Exposure Covered By CRM (Table 7, (b) and (c))		
Portfolios	Covered by	
	Eligible financial collateral	Guarantees / credit derivatives
Sovereigns and central banks:		
SAMA and Saudi Government		
Others		
Multilateral Development Banks (MDBs)		
Public Sector Entities (PSEs)		
Banks and securities firms		
Corporates	255,909	
Retail non-mortgages		
Small Business Facilities Enterprises (SBFE's)		
Mortgages		
Residential		
Commercial		
Securitized assets		
Equity		
Others		
<b>Total</b>	<b>255,909</b>	

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TABLE 10: MARKET RISK: DISCLOSURES FOR BANKS USING THE STANDARDIZED APPROACH					
	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Capital requirements	-	-	90,103	-	<b>90,103</b>

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TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS					
Value Of Investments (Table 13, (b))					
	Un-quoted investments		Quoted investments		
	Value disclosed in Financial Statements	Fair value	Value disclosed in Financial Statements	Fair value	Publicly quoted share values (if materially different from fair value)
Investments	150,000	150,000	160,060	160,060	

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TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS		
Investments	Publicly traded	Privately held
Government and quasi government	-	
Banks and other financial institutions	42,388	
Agriculture and fishing	10,500	
Manufacturing	70,514	
Mining and quarrying	3,781	
Electricity, water, gas and health services	3,879	
Building and construction	2,068	
Commerce	-	
Transportation and communication	22,808	
Services	3,281	
Others	841	150,000
<b>Total</b>	<b>160,060</b>	<b>150,000</b>

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TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Capital Requirements (Table 13, (f))	
Equity grouping	Capital requirements
Government and quasi government	-
Banks and other financial institutions	3,391
Agriculture and fishing	840
Manufacturing	5,641
Mining and quarrying	302
Electricity, water, gas and health services	310
Building and construction	165
Commerce	-
Transportation and communication	1,825
Services	263
Others	12,067
<b>Total</b>	<b>24,804</b>

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TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (Table 13, (d) and (e))	
Particulars	Amount
Cumulative realized gains (losses) arising from sales and liquidations in the reporting period	
Total unrealized gains (losses)	23,611
Total latent revaluation gains (losses)*	
Unrealized gains (losses) included in Capital	
Latent revaluation gains (losses) included in Capital*	

\*Not applicable to KSA to date

Table 1
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Scope of Application
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## a) Scope

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

## b) Basis of Consolidation

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

Entities (within the Group) fully consolidated:

### 1) AlBilad Investment Company:

AlBilad Investment Company is incorporated in Kingdom of Saudi Arabia as Saudi Limited Liability Company since 2007 and is involved in dealing, managing, arranging, advising and custody of securities. Currently, the Bank owns 99% of the ordinary share capital of the company while 1% is owned by representative shareholders.

### 2) AlBilad Real Estate Company:

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

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

Table 2
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Capital Structure
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Capital of the bank consists of the following instruments:

## 1. Eligible Paid-up Share Capital

Ordinary share capital of the Bank consists of 300,000,000 shares of SAR 10 each. All these shares carry equal voting rights and are not redeemable. These shares rank junior to all other capital instruments as other claims on the Bank.

## 2. Eligible Reserves

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

Table 3
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Capital Adequacy
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Since 1988, the rules on capital adequacy for banks have built on the recommendations of Basel I, a comprehensive set of rules issued by the Bank of International Settlement (BIS). Basel I was intended to make the capital requirement more risk-sensitive and incorporate the effects of off-balance-sheet activities. Another aim was to create more homogeneous regulation for banks on a global basis.

As from the introduction of Basel I, the regulatory capital of banks has been based on central concepts such as Tier 1 capital, supplementary capital and risk-weighted items. Basel I has been adjusted in an ongoing process, for example the introduction of market risk measurement in 1999.

On June 6, 2006, however, new and different minimum capital rules were introduced by SAMA. The new rules build on the recommendations of Basel II, also issued by the BIS. Key areas of the regulatory requirements are broader risk management, flexibility and greater risk sensitivity.

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

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

under the new capital adequacy rules:

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

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

Bank AlBilad's ICAAP policy, which aims to ensure that the Group's capital supports business growth, stipulates that the Bank should maintain an excess cover relative to the statutory requirement. This policy remains unchanged, and Bank AlBilad will also maintain an excess cover relative to the statutory requirement in the future.

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

During 2007, the Bank started working under the Basel II capital adequacy rules. Bank AlBilad has chosen to adopt the standardized approach (for credit & market risks) and the basic indicator approach (for operational risk) to calculate the regulatory requirements of capital adequacy.

Bank Albilad's strategy is to complete implementation of the Basel II Advanced Approach. In addition, the evaluation exercise will help the bank determine the work that must be undertaken, the action plan and the deliverables required during the implementation of Basel II guidelines under **Advanced Approach for Credit, Market & Operational Risks**. This includes moving to an internal rating approach for credit risk and market risk and a standardized approach for operational risk. We are currently in the process of formulating an Economic Capital Model to support Bank Albilad's capital position in "worst case" credit, market and operational loss scenarios.

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

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

## ICAAP

Bank AlBilad's Internal Capital Adequacy Assessment Process (ICAAP) integrates the Group's risk profile, risk management framework with available and required capital. ICAAP has been formally established in Year 2008 with relevant roles and responsibilities to be assigned under ALCO. The Board of Directors approved the Group's first ICAAP report for Year 2009.

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

## Risk Exposure & Assessment - General Disclosures

A key component of Bank AlBilad's business strategy is for risk management to support the objective of being a strong financial partner with insight and transparency in risk-taking. The Bank's vision is to adopt best international standards and practices in risk management. Bank AlBilad uses substantial resources to develop procedures and tools that support this vision. Accordingly, the Bank has built up substantial expertise in risk and capital management.

Managing risk is a process operated independently of the business units of Bank AlBilad.

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

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



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

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

Each individual risk type is defined in accordance with legislative and regulatory requirements and is described in further detail on the web site.

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

**Table 4**

**Credit Risk – General Disclosures**

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

## Management of Credit Risk

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

- Consistent standards are applied across the bank in the respective credit decision processes through the use of Moody's rating model for all corporate lending customers. In retail, for Application scoring an In-house development will be done and for Credit Bureau Scoring BAB is following SIMAH scores.
- The bank start the process of deploying customized scorecard and models for both i.e. SME and Corporate in Moody's system. In addition, we are also deploying Moody's Facility Risk Rating model for generating risk components i.e. Loss Given Default (LGD) and Exposure at Default (EAD) in Moody's system for mapping our borrower risk rating to Probability of Default (PD) metrics that are predicted based on own data history/ of Saudi Industry history in order to compliant with Basel II requirements for Internal Rating Based approach.
- The approval of credit limits for counterparties and the management of its individual credit exposures must fit within the Bank's portfolio guidelines and its credit strategies, and each decision also involves a risk-versus-return analysis.
- Every extension of credit or material change to a credit facility (such as its tenor,

collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.

- Bank currently assigns credit approval authorities based on dual sign-off system by business and risk up to a certain level, beyond which the proposals are referred to Credit Committee's, Executive Committee and finally Board for approval.

## Strategies

The aims of credit risk management are:

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

## Major types of Credit Risk

Credit risk includes concentration, settlement & underwriting risk.

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

## Credit Policy

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

The corner stone of the Credit Policy is as under:

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

- Guarantees from private individuals are avoided and accepted as incremental comfort.
- The Bank is particularly cautious in its granting of credits to businesses in troubled or cyclical industries

## Credit Concentration Risk

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

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

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

## Credit Risk – General Disclosures

### Default

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

### Remedial Management

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

## Types of Provisions

### 1. General Provisions

While for Accounting Financial Statement purposes the guidelines provided in IAS will be followed. The bank start to build general provision for the performing credit portfolio.

### 2. Specific Provisions

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

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

## Write-off Procedures

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

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

## Credit Risk Mitigation

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



**Broad collateral types currently used by Bank AlBilad include:**

- **Financial Collateral**

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

- **Real Estate collateral**

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

- **Guarantees**

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

- **Others**

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

## Valuation of Collaterals

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

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

- Grant a higher credit limit to the borrower or
- Make a smaller quantum of provisions or
- Continue interest accrual for a problem credit.

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

Collateral is valued, wherever possible, at net realizable value, defined as the current market value less any potential realization costs including but not limited to carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral. Bank AlBilad aims to maintain a level of information about pledges and guarantees that is sufficient for it to regularly estimate the value thereof. The value is calculated as the amount received from a forced sale less the costs of realization, including costs for days on the market. To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a Group relationship between the borrower and the guarantor exists. Bank must evaluate the guarantor before accepting the guarantee.

## Standardized Approach and Supervisory Risk Weights

For portfolios under the standardized approach, External Credit Assessment Institutions risk assessments are used by Bank AlBilad as part of the determination of risk weightings: Currently the Bank's corporate portfolio is externally unrated. However, for Financial Institutions, three SAMA recognized External Credit Assessment Agencies were nominated for this purpose, i.e. Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group.

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

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

### Claims on Sovereigns and Their Central Banks

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

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

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

### Multilateral Development Banks

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

### Claims on Corporate

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

### Claims Included in the Regulatory Non-Mortgage Retail Portfolios

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

### Claims secured by residential mortgages

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

### Claims secured by Commercial Real Estate

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

### Past Due Loans

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

### Other Assets

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

When calculating the risk weighted value of any exposure under the standardized approach, look up function is applied to the central data base maintained in Excel and assigns to each individual exposures.

Table 10

MARKET RISK: DISCLOSURE FOR BANKS USING STANDARDIZED APPROACHES 2010

## Market Risk

Market risk concerns with profit margin rate and prices. The market risk arises from the changes in market prices in Murabaha, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange. The Bank applies the Standardized Approach in calculating market risk capital charge for Pillar I and advanced risk models for Pillar II which include Value-at-Risk and Stress Testing. Bank AIBilad's market risk capital charge for Pillar I as at the end of December 2010 is approximately SAR 90,103 thousands.

## Profit Margin Risk

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

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

## Foreign Exchange Risk

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

## Policies & Responsibilities

The Board of Directors has determined the general limits for the market risk, the Risk Management sets limits and guidelines for the general business units reflecting the strategic risk exposure and risk appetite targets as per bank's market risk policies. In addition, the Asset/Liability Committee regularly monitors and discuss issues within scope of market and liquidity risk.

Bank AIBilad uses both conventional risk measures and advance risk models for measuring risk, such as Market Risk Limits, Liquidity Mis-matches, Concentration Limits, Economic Value at Risk to measure its market risk exposures, including

- Reporting Bank AIBilad's market risk to Board of Directors and senior management;
- Reporting to SAMA; and
- Day-to-day management of market risk in the business units.

Bank AIBilad's Value-at-Risk model is currently used for the Pillar II calculation and the Bank is in process of implementing system for day-to-day profit and liquidity risk management.

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

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

The Bank uses historical simulation to calculate Value-at-risk which assumes normally distributed asset returns. As on 31<sup>st</sup> December 2010, Bank AIBilad's value at risk is approximately SAR 126,791 thousands. The amount is the maximum that Bank AIBilad would statistically lose at a confidence level of 99%, assuming that the exposure was maintained for 10 working days.

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

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

Bank AIBilad also conducts comprehensive stress tests of the model at regular intervals and the results are presented to the senior management. In addition, there are a number

of other qualitative requirements to ensure that the model is completely up to date with respect to documentation, calculation methods and control measures.

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

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

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

In connection with day-to-day market risk management, limits are established for the trading and banking book of the business unit. These are monitored regularly and sufficient procedures have been established for the subsequent follow-up.

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

## Liquidity Risk

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

## Liquidity Risk is Defined as the Risk of Losses Result From:

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

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

The management of operational liquidity risk aims primarily at ensuring that the Bank always has sufficient liquidity in the short term to absorb such net effects of transactions made and expected.

The policies for Bank AlBilad's liquidity risk are defined as part of the market risk policies. In addition the liquidity contingency plan has been implemented aiming to ensure that Bank AlBilad is sufficiently prepared to take remedial action if an unfavorable liquidity situation is occurred.

It is a natural element of the Bank's business strategy to assume risks in the liquidity field. Bank AlBilad's policies have been defined with respect to how much negative funding the Bank wishes to accept. In liquidity management, the Bank distinguishes between liquidity in local, and foreign currencies.

The Risk Management has set limits for liquidity risks, which are calculated separately for local and foreign currencies. The Market Risk Department is responsible for ensuring that the Bank complies with the operational liquidity risk limits and expedite breaches to senior management. The Key Business & Risk Units stakeholders receive reports on the Bank's liquidity risks regularly. Moreover, the Asset/Liability Committee continuously assesses developments in the Bank's liquidity and plans long-term funding.

## Managing Short-Term Liquidity Risk

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

Liquidity is determined on the basis of cash flows of outstanding transactions. The calculation is made taking into account the Bank's holdings of liquid assets.



## Managing Long-Term Liquidity Risk

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

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

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

Bank AlBilad conducts stress tests to measure the Bank's immediate liquidity risk and to ensure that the Bank has a certain response time if a crisis occurs. The stress tests estimate the structural liquidity risk in various scenarios. The scenario analyses involve bank specific crises and general market crises.

The Bank monitors the diversification of products, currencies, maturities and counterparties of the funding sources to ensure that the Bank has a funding base that will protect the Bank to the greatest possible extent if markets come under pressure.

**Table 12**

**OPERATIONAL RISK 2010**

### Overview

Operational Risk in Bank AlBilad aims to mitigate the risks that arise from process, system, people and external events. The implementation of such risk mitigation would have positive impacts on:

## Income

Bottom line, shareholder value, reputation, and long term stability

## Risks and Controls

Mitigation of risk by having an inventory of key business processes with documented risks and controls and designated senior managers responsible to manage these risks

## Efficiency

System will be the focus to implement effective controls, have efficient processes supported by adequate technology

## Corporate Governance

Effective tools of controls through out the management will lead to better corporate governance which is also the focus of the regulators

The Operational Risk in Bank AlBilad has introduced the concepts, framework, and the tools to mitigate operational risk to acceptable residual levels, in accordance with its risk appetite policy, i.e. by maintaining a strong control environment, which is managed through Bank's Operational Risk Management Framework. The bank seeks how best to embed these tools and techniques as a long-term solution.

At one end we have operational risk identifying and mitigating risks while working with the business and on the other hand it is also improving key processes under the umbrella of Business Process Re-Engineering.

## Vision

Our vision is to develop and implement a strong operational risk process and attain a reputation of the most efficient and effective Operational Risk Management in Islamic Banking that brings consistency and risk standardization within Bank AlBilad through a common framework of policies to facilitate optimization of shareholder value and efficient usage of capital.

## Objectives

Implement best practice measurement process to facilitate day- to- day management of operational risk; and the following frameworks that meet the local regulatory and International requirements.

- Governance Structure
- Risk and Controls Identification
- Implementation of Control and Risk Self Assessment, Key Risk Indicators, Loss Event Collection
- Manage fully implemented operational risk management tools in Bank AlBilad
- Rollout of operational risk management framework to Retail Branches & Business Lines
- Position Bank AlBilad to move towards Advance Measurement Approach for calculation of Operational Risk Capital

## Strategy

Operational Risk Management Strategy is to implement an operational risk framework that is in line with industry best practices and meets regulatory requirements.

Components of the framework include:

- Loss Data – Internal / External / Scenario based
- Key Risk Indicators – By lines of business and risk type with thresholds attached for monitoring and escalation
- Control and Risk Self – Assessment process – Standardized approach

Set common categorization language for Operational Risk Types that will be used for all components of the operational risk framework.

Set of Operational risk policies and guidelines with company wide applicability to support the implementation of the framework as well as for ongoing risk reporting requirements.

Timely reporting of operational risk exposures to the business management and the Risk Management Committee.

Integration of operational risk management in business decision making process.

Ensure that operational risk measurement (Expected Loss/Unexpected Loss/Stress Loss) is tied to the underlying risks faced by business line.

Ensure that operational risk is incorporated in risk-return calculations and continuous monitoring of the business risk profile.

## Bank AlBilad Operational Risk Approach

Bank AlBilad has adopted Basic Indicator Approach (BIA) for Regulatory Capital Assessment under Pillar 1, i.e. average of annual gross income over previous 3 years. Additional capital charge could be imposed under Pillar 2 if operational risk arises from control failures. The bank seeks to develop applying the other measurement approaches aiming to achieve the Advance Measurement Approach in the next few years.

## Risk Mitigation Processes

The Bank shall adopt a blend of centralized and decentralized approaches for operational risk management. This will enable the bank to effectively manage operational risk in view of varying levels of risk tolerance and operational independence of individual entities.

Bank AlBilad enhances the risk control by the 3 main components of the Operational Risk Management Functions:

**Control & Risk Self Assessment:** analyzing the processes to identify inherent risks and control gaps and residual risks, treatments and develop mitigation measures with action plans to improve the controls.

**Key Risk Indicators:** Metrics that serve as predictors of risk providing an early warning signals to business.

**Loss Data Collection:** risk is manifested in the losses. Collection of operational risk loss data is essential for measuring the operational risk capital charge and better focuses efforts to reduce risk.





**ALBILAD  
BRANCHES And  
ENJAZ CENTERS**

## Central Region Men Branches

Br. No	Br. Name	City	Tell. No
421	ALWOROOD	RIYADH	01-4541125
422	ALRAYAN	RIYADH	01-4971679
423	ALBATHA	RIYADH	01-4134486
424	ALRAWADAH	RIYADH	01-4971907
425	ALTAKHASUSI	RIYADH	01-4834647
426	ALNASEEM	RIYADH	01-2302159
427	ALDEERAH	RIYADH	01-4113796
428	ALSENAAEIA	RIYADH	01-2047236
430	KING FAHAD ROAD	RIYADH	01-4624909
431	ALMOROOJ	RIYADH	01-4508067
432	ALBADIAH	RIYADH	01-4310753
433	ALKHARJ	ALKHARJ	01-5476336
434	DAWADMI	DAWADMI	01-6431726
435	SOUTHERN RING	RIYADH	01-4952777
436	ALHAMRA	RIYADH	01-2483223
437	ALKHALEEJ	RIYADH	01-2265971
438	WADI ALDWASER	WADI ALDWASER	01-7842329
439	SHAKRA	SHAKRA	01-6221012
440	ALSHIFA	RIYADH	01-2985183
441	WEST RING	RIYADH	01-4329326
442	EAST RING	RIYADH	01-4450666
445	ALTAHLIAH	RIYADH	01-4624327
555	ALMALAZ	RIYADH	01-4798490
561	BURAIDAH	BURAIDAH	06-3694986
562	UNAYZAH	UNAYZAH	06-3619427
563	ALSAFRA	BURAIDAH	06-3270519

Br. No	Br. Name	City	Tell. No
564	ALRASS	AL RASS	06-3339452
565	ALZULFI	AL ZULFI	06-4225678
566	ALRIYAN	UNAYZAH	06-3619774
567	ISKAN	BURAIDAH	06-3835415
568	ALBADAEA	ALBADAEA	06-3323939
569	BUKAIRYAH	BUKAIRYAH	06-3359585
570	ALMAJMAAH	ALMAJMAAH	06-4325533

## Central Region Ladies Branches

Br. No	Br. Name	City	Tell. No
421	ALWOROOD	RIYADH	01-4541125
422	ALRAYAN	RIYADH	01-4971679
424	ALRAWADAH	RIYADH	01-4971907
425	ALTAKHASUSI	RIYADH	01-4834647
426	ALNASEEM	RIYADH	01-2302159
430	KING FAHAD ROAD	RIYADH	01-4624909
432	ALBADIAH	RIYADH	01-4310753
433	ALKHARJ	ALKHARJ	01-5476336
436	ALHAMRA	RIYADH	01-2483223
440	ALSHIFA	RIYADH	01-2985183
562	UNAYZAH	UNAYZAH	06-3619427
563	ALSAFRA	BURAIDAH	06-3270519
564	ALRASS	ALRASS	06-3339452
565	ALZULFI	ALZULFI	06-4225678



## Western Region Men Branches

Br. No	Br. Name	City	Tell. No
601	ALSAFA	JEDDAH	02-6938847
602	AZIZIYAH -70	JEDDAH	02-6740143
603	ALKHALIDEAH JEDDAH	JEDDAH	02-6836401
604	ALSAMR	JEDDAH	02-2718076
605	ALTAHLIAH	JEDDAH	02-2633745
607	ALFALAK	JEDDAH	02-6917862
608	ALREHAB	JEDDAH	02-6192329
609	AL THAGHAR	JEDDAH	02-6870710
611	P. SULTAN	JEDDAH	02-2386035
671	ALAZIZYAH	MAKKAH AL MUKARAMA	02-5592235
672	JABAL ALNOOR	MAKKAH AL MUKARAMA	02-5758074
674	AL AWALI MAKKAH	MAKKAH AL MUKARAMA	02-5577761
701	SHIHAR	AL TAIF	02-7430368
702	FAISALYAH	AL TAIF	02-7430538
721	QORBAN	ALMADENAH ALMONAWARA	04-8284193
722	SULTANAH	AL MADENAH ALMONAWARA	04-8264624
723	INDUSTRIAL YANBU	YANBU	04-3922174
724	YANBU	YANBU	04-3908312
743	TABUK	TABUK	04-4238473
761	KHAMIS MUSHAIT	KHAMIS MUSHAIT	07-2217985
762	NAJRAN	NAJRAN	07-5230386
763	KHAMIS MUSHAIT	KHAMIS MUSHAIT	07-2370077
764	ABHA	ABHA	07-2280909
765	AHAD RUFDAIDAH	AHAD RUFDAIDAH	07-2571063
767	ABHA	ABHA	07-2288722
791	ALBAHA	ALBAHA	07-7274479
792	BISHA	BISHA	07-6209852
821	JIZAN	JIZAN	07-3229088

## Western Region Ladies Branches

Br. No	Br. Name	City	Tell. No
601	ALSAFA	JEDDAH	02-6938847
603	ALKHALIDEAH JEDDAH	JEDDAH	02-6836401
604	ALSAMR	JEDDAH	02-2718076
605	ALTAHLIAH	JEDDAH	02-2633745
607	ALFALAK	JEDDAH	02-6917862
608	ALREHAB	JEDDAH	02-6192329
671	ALAZIZYAH	MAKKAH AL MUKARAMA	02-5592235
701	ALKHALDIAH (ABHA)	AL TAIF	02-7430368
764	SHIHAR	ABHA	07-2280909



## Eastern Region Men Branches

Br. No	Br. Name	City	Tell. No
741	ARAR	ARAR	02-6938847
742	SKAKA	SKAKA	02-6740143
744	QURAYYAT	QURAYYAT	02-6836401
861	ALKORNAISH ALDAM.	AL DAMMAM	02-2718076
862	Hafr Albaten	HAFR ALBATEN	04-8284193
863	JUBAIL	JUBAIL	04-8264624
864	ALFAYSALIYA	AL DAMMAM	04-3922174
865	RAWDAH DAMMAM	AL DAMMAM	04-3908312
866	JUBAIL IND	JUBAIL IND	07-2217985
867	QATIF	QATIF	07-2571063
921	K. ABDULAZIZ ST. ALKH.	ALKHOBAR	07-2288722
961	ALMOBARAZ	ALMOBARAZ	07-7274479
962	ALHAFOF	ALHAFOF	07-6209852
963	ALJAMMAH	AL HASA	07-3229088

## Eastern Region Ladies Branches

Br. No	Br. Name	City	Tell. No
861	ALKORNAISH ALDAM.	AL DAMMAM	03-8092835
862	HAFR ALBATEN	HAFR ALBATEN	03-7215631
865	RAWDAH DAMMAM	AL DAMMAM	03-8127033
866	JUBAIL IND	JUBAIL IND	03-3473316
921	K. ABDULAZIZ ST. ALKH.	ALKHOBAR	03-8878148
961	ALMOBARAZ	ALMOBARAZ	03-5303427
963	ALJAMMAH	AL HASA	03-5805550



## Enjaz Centers

NO	Br No	Branch Name	City	Telephone
1	101	AL-QURAYYAT	AL-QURAYYAT	6431062
2	102	AR-AR	AR-AR	6627961
3	103	AL-JOUF	AL-JOUF	6241328
4	104	HAIL	HAIL	5325072
5	105	SAFRA'A	BURAIDAH	3835062
6	111	ALKHOBIB	BURAIDAH	3246216
7	112	AL-BUKAIRIYAH	AL-BUKAIRIYAH	3352106
8	113	ONAIZAH	ONAIZAH	3612608
9	114	AL-RASS	AL-RASS	3338017
10	115	AL ZULFI	AL ZULFI	4225482
11	116	AL BADAYE>E	AL BADAYE>E	3323939
12	127	SHAGRA	SHAGRA	6221012
13	129	ALMOZAHMIA	ALMOZAHMIA	5232113
14	130	WADI ALDWASIR	WADI ALDWASIR	7841469
15	131	AL-MAJMAA	AL-MAJMAA	4310324
16	132	AL-DAWADMI	AL-DAWADMI	6430315
17	133	AL-KHARJ	AL-KHARJ	5494297
18	136	HIJAZ ST	RIYADH	4591045
19	137	AL-RABWA	RIYADH	4971685
20	138	AL-MUNTAZAH	RIYADH	4735842
21	139	AL TA'AMER	RIYADH	4142161
22	140	MILITARY HOSPITAL	RIYADH	4735829
23	141	AL-NAKHEEL	RIYADH	2350348
24	142	AL-RAIL	RIYADH	4015344
25	143	AL-NASEEM	RIYADH	2352976
26	144	AL-MALAZ	RIYADH	4782731
27	145	AL-SINAIYAH	RIYADH	4468152

NO	Br No	Branch Name	City	Telephone
28	146	AL-OLAYA	RIYADH	4616629
29	147	AL-BATHA	RIYADH	2860347
30	148	AL-SHUMAISI	RIYADH	4351291
31	149	AL-MUROUJ	RIYADH	2252347
32	150	AL-KHAZZAN	RIYADH	2831875
33	151	BIN-SAHMAN	RIYADH	2860269
34	152	AL-RAWDAH	RIYADH	2097016
35	153	AL-BALAD BATHA	RIYADH	2831902
36	155	HAY BADER	RIYADH	4235750
37	157	AL-BADIAH	RIYADH	4182760
38	158	UL ALHAMMAM	RIYADH	2813892
39	159	AL MARQAB	RIYADH	4413475
40	160	MANFOUHA	RIYADH	4595230
41	161	SULAY	RIYADH	2410923
42	164	AL SOLAIMANIA	RIYADH	2882540
43	165	KING FAHAD QR.	RIYADH	4709730
44	201	AL-MANSHIYAH	TABUK	4217267
45	211	AL-ANBARIYAH	MADINAH	8390877
46	213	ALAZIZYA MADINA	MADINAH	8320532
47	214	AL-SITTEEN	MADINAH	8394036
48	215	QURBAN	MADINAH	8157831
49	216	SULTANAH	MADINAH	8157627
50	217	YANBOU	YANBOU	3222952
51	218	RABEGH	RABEGH	4233830
52	220	QABEL ST	JEDDAH	6489755
53	222	AL-MAKARONA	JEDDAH	6751025
54	223	KING ABDULAZIZ STR.	JEDDAH	6485980



## Enjaz Centers

NO	Br No	Branch Name	City	Telephone
55	224	AL-BAWADI	Jeddah	6926163
56	225	AL KANDARA	Jeddah	6312655
57	226	AL-NAHDAH	Jeddah	6926207
58	227	AL-SITTEEN	Jeddah	6582079
59	228	AL-NUZHAH	Jeddah	6581104
60	229	AL-SAFA	Jeddah	6285082
61	230	AL-SALAMAH	Jeddah	6977625
62	231	MUSHRIFAH	Jeddah	6644272
63	232	AL-JAMAA	Jeddah	6871385
64	234	AL-CORNICH	Jeddah	6458043
65	235	BANI MALIK	Jeddah	2870357
66	236	AL SAMER	AL SAMER	6934550
67	251	AL-GAZZA	Makkah	5722227
68	252	JABAL ALNOOR	Makkah	5758046
69	253	ALNOZHA( MAKKAH)	Makkah	5429693
70	258	AL-SITTEEN	Makkah	5470255
71	259	AL-AZIZIYAH	Makkah	5590437
72	261	AL KAHAKYAH	Makkah	5334225
73	272	AL-SHUHADA	Taif	7442880
74	273	BARHAT AL-GAZZAZ	Taif	7345340
75	281	AL-BAHA	Al-Baha	7252962
76	282	AL-QUNFUDAH	Al-Qunfudah	7323294
77	283	BISHAH	Bishah	6223424
78	284	KHAMIS MUSHAYT	Khamis Musayt	2209654
79	285	ABHA	Abha	2290341

NO	Br No	Branch Name	City	Telephone
80	286	SABIA	SABIA	3265859
81	287	NAJRAN	NAJRAN	5232068
82	288	JAZAN	JAZAN	3225198
83	289	SAMTAH	SAMTAH	3325265
84	290	ABU AREESH	ABU AREESH	3243498
85	291	MAHAIL ASEER	MAHAIL ASEER	2854906
86	301	HAFR AL-BATEN	HAFR AL-BATEN	7224582
87	302	AL-KHAFJI	AL-KHAFJI	7671459
88	303	AL-JUBAIL	AL-JUBAIL	3610017
89	304	RAS TANNOURAH	RAS TANNOURAH	6674835
90	305	EBQAQ	EBQAQ	5650228
91	306	AL-QATIF	AL-QATIF	8520103
92	307	HYAT PLAZA	DAMMAM	8172550
93	308	BLOCK 8	DAMMAM	8431508
94	310	BLOCK 91	DAMMAM	8186372
95	311	DAMMAM MAIN	DAMMAM	8344578
96	312	AL-THUQBAH	AL-THUQBAH	8973582
97	313	AL-DHAHRAN STR	KHOBAR	8973769
98	314	PRINCE MUHAMMAD STR	KHOBAR	8893471
99	315	AL-MUBARRAZ	AL-MUBARRAZ	5852530
100	316	AL-AHSA	AL-AHSA	5852734
101	317	KING FAHD STR	KHOBAR	8936261
102	318	ALHAMRA MALL	AL-AHSA	5759065
103	319	AL AQRABIYA	KHOBAR	8985789
104	320	AL OMAL CITY	DAMMAM	8270148

