بنك البلاد
BANK ALBILAD

# Annual **Report** 2012

BANK ALBILAD

Kingdom of Saudia Arabia
Al Riyadh - Al Malaz - 382 Salah AlDeen Street
P.O. Box 140 Al Riyadh 11411

Phone: +996 1 479 8888
Fax: +966 1 291 5101

بسم الله الرحمن الرحيم

Custodian of the Two Holy Mosques

# King Abdullah bin Abdulaziz Al Saud

His Royal Highness

## Crown Prince Salman bin Abdulaziz Al Saud

First Deputy Prime Minister

Minister of Defence

His Royal Highness

## Prince Muqrin bin Abdulaziz Al Saud

Second Deputy Prime Minister

## Our Vision..

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

## Our Values..

### Honesty & integrity:

We will practice the highest ethical standards and honour commitments to our customers, employees and shareholders.

### Unequivocal Commitment to Shariah Authenticity:

We will be transparent and adopt the highest standards of fairness in all our dealings with our customers , employees and shareholders.

### Customer Service Excellence:

We will aim to achieve total customer satisfaction by understanding customer needs and delivering it flawlessly.

### Team-work:

Our strength and competitive advantage is and will always be our people. We commit to continually learning, sharing ideas and knowledge.

We will empower our people, promote culture of responsibility, foster and recognize team work at all level of our organization.

### Corporate Social Responsibility:

We commit to provide our colleagues with a safe and healthy working environment and will participate in the community by supporting education and other worthy causes.

H.E. Musaed Mohammad Al-Snani
Chairman

Dr AbdulRahman Bin Ibrahim Al Humaid
Member and Chairman of the Executive Committee

Mr. Ibrahim Bin Abdullah Al-Subeaei
Member

Mr. Nasser Bin Mohmmad Al-Subeaei
Member

Mr. Khaled AbdulAziz Al-Mukairin
Member

Mr. Khaled AbdulRahman Al-Rajhi
Member

Dr. Ibrahim AbdulRahman Al-Barrak
Member

Mr. Adib Abdullah Al-Zamil
Member

Eng. Ali Bin Othman Al-Zaid
Member

Mr. AbdulRahman Bin Mohammed Ramzi Addas
Member

Mr. Mohammed Abdullah El-Kuwaiz
Member

H.E. Musaed Mohammad Al-Snani

# Chairman's Statement

## Musaed Mohammad Al-Snani

In the name of Allah, the Merciful, the Compassionate
Praise be to Allah, prayer and peace be upon the Messenger of Allah,
Mohammad bin Abdullah, his family and companions.

Bank Albilad's Board of Directors has the pleasure of presenting to our honorable shareholders the Bank's Annual Report 2012 that sheds light on the Bank's performance, major activities, operational results, financial status, shareholders' rights and financial statements for the financial year ended 31 December 2012.

Allah willing, Bank Albilad has succeeded in delivering positive results and achieving the desired objectives. In spite of the global financial situation and crisis, the Saudi economy was spared from the negative impacts of this financial downturn, thanks Allah first, and second the conservative banking, monetary and financial policy adopted by the Ministry of Finance and SAMA - who responded and interacted promptly and wisely to the economic changes and developments. It is worth mentioning here that the Saudi banks' solid status, their capacity to deal with risks and maintain a high-level of financial solvency have contributed to this landmark accomplishment.

Bank Albilad has pursued its policies and measures that contributed to supporting the Bank's quality of services and accomplishing successfully its banking march through the year 2012. At the same time, the Bank was keen to observe a conservative banking strategy in order to enhance its position as one of the banking edifices, boost its competitiveness and increase its market share. All this reflected positively on developing an advanced credit rating that consolidated the international rating agencies' trust in the Bank's high performance level.

Peace be upon you and God's mercy and blessings.

In the end, Bank Albilad's Board of Directors proudly convey their highest gratitude and esteem to the Custodian of the Two Holy Mosques and his Crown Prince – Allah bless them both – for the support and care offered to the banking sector by the highest national authorities, such as SAMA, the Ministry of Finance, CMA, and the Ministry of Trade and Industry. Albilad also conveys its thanks to the Bank's employees for their efforts in transforming the Bank into a top investment and banking choice, in addition to assuming a crucial role in CSR. May Allah Bless everybody's efforts and guide their steps toward success.

H.E. Mr. Khaled bin Sulaiman Al-Jasser

# CEO's Statement

## Khaled bin Sulaiman Al-Jasser

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

Peace be upon you and God's mercy and blessings.

On behalf of myself, my executive colleagues and all the Bank's employees, I convey my deep thanks to the Saudi Arabian Monetary Agency (SAMA), the Ministry of Finance, the Ministry of Trade, Capital Market Authority (CMA), all our national institutions and governmental commissions and the people in charge for their role and efforts in supporting the national economic march, developing a favorable economic environment for Saudi business companies and firms in general and the banking sector in particular under the sponsorship of the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud and Crown Prince Salman bin Abdulaziz Al Saud, Deputy Premier and Minister of Defence, God bless them.. I also convey my thanks to all Bank Albilad ambassadors – male and female – for their continuous dedication and devotion in carrying out their tasks.

In my name and on behalf of the Board members, I am glad to put at your disposal Bank Albilad's annual report for 2012. Today, and on the eve of the global economic downturn, we can reconfirm that the Saudi economy holds the constituents, the growth and the prosperity entitling it for a reinforced leadership role in our region – a region subject to growing world interest day after day, in view of various factors on top of which its oil reserves and its strategic location at the crossroad of several continents, not to mention the cultural and historical factors.

We are all aware that the Kingdom of Saudi Arabia enjoys abundant graces granted by Almighty Allah, hence entitling the Kingdom to a leadership role in several domains - mostly the economic one - that has staged a remarkable prosperity with stunning impact around the world. This achievement has paved the way for the creation of a competitive environment that we, at Bank Albilad, are availing of to boost our revenues for the benefit of the Bank's customers and shareholders. Within the framework of this fast-growing prosperity in Saudi Arabia, Bank Albilad carried on with the efforts to consolidate its position as a leading Islamic bank that caters to the current stage's growing demands under the wise commandment of the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud and Crown Prince Salman bin Abdulaziz Al Saud, Deputy Premier and Minister of Defence, God bless them.

The Saudi economy's leading role has pushed all the national banks to live up to the responsibility of participating in driving the prosperity in all the national economic fields, inspired and confirmed in our decisions by the vision of the Custodian of the Two Holy Mosques and his loyal Crown Prince as well as by the distinctive position of the Kingdom on the global scene. We, at Bank Albilad, are fully aware of the huge responsibility that lies on our shoulders and translates into the role we assume in serving our country and our society, and contributing to our economy growth; and by the same token achieving excellent revenues for our shareholders and offering superior services to our customers. All these objectives have always been for us the driving force behind setting up a work program that we strive to implement with dedication and relentless hard work. Bank Albilad has achieved, with God's help, substantial increase and growth in its financing portfolio and deposits during last year and the current year as well. These results had reflected positively on the Bank's activity and contributed greatly in the building and development march that accompanies the Bank's plans. Albilad was keen to develop its business activities in order to achieve the goals that meet its customers' aspirations, be it the banking services offered at the Bank's branches or through the online media reaching out to the largest customer segment.

Almighty Allah blessed us with exceptional results in 2012 compared to Bank Albilad's history and performance in the previous years. The net operating income in 2012 reached 569 million Saudi Riyals compared to 330 million Saudi Riyals in 2011, with an increase of 72.4 %. The net income with Extra-ordinary profits this year reached 942 million Saudi Riyals, with an increase of 185%.

These outstanding results were achieved thanks to the joint efforts of all the Bank's employees, since we succeeded in increasing the deposits' growth up to 3% compared to last year. Moreover, the financing portfolio, made of two components: the companies and the individuals, also scored a growth average of 32.5 %.

These positive results – may Allah's blessings come upon them – impacted the return on the assets' average that reached 3.3% compared to 1.3 % in 2011. As for the return on the average of the shareholders' rights, it reached 24.2 % compared to 10 % in 2011. We also succeeded – thanks be to Allah – in raising the total income on operations to 1,737 million Saudi Riyals, with an increase of 26.4 % compared to 2011.

We also succeeded in shrinking the average of the operating cost to the income prior to the deduction of the allocations, to 51 % compared to 58 % in 2011. We will continue – Allah willing – to comply with this key policy of spending cost control and create an added value out of it. The allocations for 2012, which will be used to support the financial position of the Bank, have reached 275 million Saudi Riyals; an average increase of 9 % compared to 2011. During 2012, six new Bank Albilad branches were inaugurated, and we are planning – Allah willing – to pursue this expansion policy during 2013 in order to be closer to our customers. All these figures reflect a substantial growth beyond expectations being achieved, thanks to Almighty Allah and to the constant support of H.E. the Chairman and the Honorable Board Members, in addition to the collaboration of Bank Albilad's dedicated professional Saudi executives who assist me in managing and running the Bank. Thank you all.

# 2012 Achievements by Departments and Divisions

# 2012 Achievements by Departments and Divisions

Throughout 2012, Albilad's departments and divisions have successfully added various activities and achievements to their records; the most prominent of which were as follows:

## Retail Banking Division

In line with Retail Banking's development and expansion strategy, we have opened new branches and applied further developments to products, systems and the team. The results were as follows:

## Deposits and Funding

In retail banking, customer deposits witnessed an increase of 17% compared to the year 2011 due to our focus on building and expanding our customer base. Our financing portfolio, on the other hand, witnessed an increase of 37 % compared to 2011.

During 2012, we have opened 6 modern branches as well as two sections for ladies. Our new and expanded network – with a total of 88 branches – will help bring us closer to Albilad customers.

## Consumer Finance Department

- Our net consumer finance portfolio was valued at SAR 7,540 million at the closing date in December 2012 compared to SAR 5,514 million at the closing date in December 2011 – a 37% increase. This was also accompanied by a 17% increase in the number of customers who were granted consumer finance - 54,000 customers at the closing date in December 2012 compared to 46,000 customers in 2011.

The Consumer Finance strategy focuses on the following:

- Implement Shariah-compliant principles by providing a wide range of credit products that are in line with Shariah terms and conditions
- Provide excellent services that match our customers' expectations; giving them a sense of exclusivity by offering unique products or distinctive customer relationship management by our sales team or managers
- Provide financing solutions that are unavailable at our competitors
- The Retail Banking Division has recently introduced new financing products, enhanced the performance of current products, opened new sales channels and provided a number of competitive offers including:

  - Re-financing product for current customers
  - Product for debt payment at competitor banks
  - Personal Finance through mortgage
  - Leasing that ends with transferred ownership (cars)
  - Leasing that ends with transferred ownership (housing)
  - Incremental installment service
  - Deferred payment service
  - AlDhamen program in collaboration with the Saudi Real Estate Development Fund

## Enjaz Division

The Enjaz Division provides international and local money remittance services. In 2012, the division achieved considerable growth, introduced new products and services and opened new remittance channels with correspondent banks. Geographical coverage has expanded through the opening of new Enjaz Centers, reaching a total of 144 centers at the end of 2012. Additional developments included automating access to customers' files.

## Corporate Banking Division

The Corporate Banking Division provides banking and financial services to several key segments including:

- The startup businesses sector (SMEs)
- Private companies and organizations
- Governmental and semi-governmental organizations
- Charity organizations
- Local and international financial institutions

During 2012, the Bank has worked on improving the level of service provided to all these segments through the presence of qualified Customer Relationship Managers, in addition to dedicating a Call Center to corporate clients as well as customized e-services for this highly important segment.

In 2012, we also witnessed quantitative and qualitative progress in our Corporate Banking Division. We have been able to access new segments as a result of extensive field research and marketing studies that were conducted in cooperation with specialized local and multinational consulting firms. We have also substantially enhanced our banking procedures and launched a number of projects that were successfully completed and complemented with improvements in service standards, performance monitoring, and further transparency. These improvements contribute to a decrease in operational risks and an increase in realized profitability, and their impact was clearly reflected in our Corporate Banking Division's performance figures: a net profit of SAR 129 million in 2012 compared with SAR 73 million in 2011, constituting a 77% growth.

## Treasury Division

Albilad's Treasury Division plays an important role in several Shariah-compliant activities including:

- Foreign Exchange
- Liquidity risk management and yield curve
- Investing in Shariah-compliant Sukuk
- Sales including foreign currency and other products
- Research and economic reports

The Treasury Division continues to be a key partner in Albilad's success story and effectively drives the Bank towards maintaining constant stability and an increase in revenues.

In line with our commitment to increasing income, our team has benefited from the differences in revenue from foreign exchange within banks to increase its own revenues and expand regionally through its Murabaha products in Saudi Riyals and US Dollars. Our specialized foreign currency exchange team also played a major role in establishing solid presence for Albilad in the local and regional market.

Our sales team has been able to provide competitive prices to our various corporate customers, enabling these organizations to better manage their foreign currency exposures and to cater to all of their requirements.

In order to reach new dimensions in customer relations, we have devised general strategies for a comprehensive infrastructure which enables us to offer direct customer service and expand our customer base to include new market segments as well as new and effective tools.

In line with our efforts to reinforce the relationship between the Treasury and its customer base, we have circulated a number of periodical reports that convey the latest economic and financial developments locally and worldwide. The reports highlight the effects of these advancements on our regional economy and foreign currency products, which added a new dimension to the existing partnership – one that is built on exchanging information, sharing expertise, and consultancy.

## Risk Divisions

Throughout 2012, the Risk Divisions have worked on building an efficient risk management system and implementing sound practices to achieve the right balance between risk and expected returns in all banking transactions. The risk divisions' framework constitutes three main pillars – adopting the right values for risk management, organizational structure, and risk assessment and control operations that are consistent with banking activities to maintain a reasonable risk level.

The Risk Divisions enjoy an independent role based on the regulations of the Saudi Arabian Monetary Fund (SAMA) and the framework of Bank for International Settlements (BIS). The Bank has developed new business models for identifying, assessing, and managing risks, and has defined the role of Risk Management as an independent line of work. Risk management involves various banking risks such as credit risk, liquidity risk, operational risk, and market risk. The Bank is keen on constantly reviewing risk management policies and regulations to ensure their compatibility with market and product changes and to ensure applying the best international practices.

## Credit Risk

Credit risk is considered the Bank's highest level of risk due to its investment and financial activities. The credit risk workflow is divided into multiple units that follow one system in accordance with the credit policies and procedures.

## Credit Risk Assessment

The Bank uses the most accurate qualitative and quantitative credit risk measurement to determine the level of risk it faces. Albilad currently applies the Moody's Corporation risk analysis system for conducting internal risk assessment for corporate customers to determine the default risk, the amounts likely to default, and the associated losses. The Bank may further improve internal risk measurement methods for clients with small and medium accounts, as well as clients with high financial solvency, by upgrading an assessment model that is compatible with Moody's system. The model differs from the currently used systems and provides customers with a more accurate and just assessment.

## Credit Risk Buffers and Control

The Bank uses numerous methods to reduce credit risk, the most prominent of which is through conducting analytical studies for future data. This measures the customer's anticipated ability to fulfill due payments. Credit approval is provided through several credit committees consisting of the Bank's executives who determine the degree of credit risk as well as credit facilities granted for each party. In addition, the Bank may request guarantees in exchange for the granted facilities if the need arises. This usually consists of the most liquid, systematic, and feasible guarantees that can take various forms including, for example, liability coverage, mortgaging certain investments and assets for the benefit of the Bank, as well as financial, personal, or third-party guarantees in exchange for facilities, and reserving commercial or residential real estate assets. It's important to note that personal finance is granted based on salary transfer to the Bank, taking into account the lack of credit concentration and ensuring the consistency of the volume of credit exposure with the set policies in this regard, whether it involves a specific party or sector.

## Monitoring and Reporting

A comprehensive credit solvency review is conducted on an annual basis for all financed corporate customers in addition to issuing customer reviews and frequent visit reports. Corporate customers with high credit risk rates are classified among customers who require special monitoring, after which their credit exposure is carefully monitored for adequate mitigation. Portfolios of individual customer who have facilities and credit cards undergo regular follow-up. This is carried out through assessing the criteria set for every portfolio within a specific segment. The Bank calculates the credit allowances in the Bank's financial records and statements in accordance with the IFRS financial standards; known to apply to accounts which may result in losses when all indicators point towards the necessity of these allowances. In addition, this may affect the expected cashflow from these assets or investments. The Bank also prepares a comprehensive monthly report discussing the status of the Bank's portfolio along with a credit concentration analysis to be reviewed and supervised by the Bank's senior management.

## Market Risk

Market risk is defined as the risk that a bank will suffer financial losses due to changes in market prices which could affect the fair value of future cash flows.

Market variables include Murabaha rates, foreign currency exchange rates, and stock prices. In line with international standards and the Saudi Arabian Monetary Agency regulations, the Bank's portfolios have been divided into two types: Trading portfolios and investment portfolios.

## Trading Portfolios

The Trading Portfolio aims at taking advantage of market changes to achieve short-term returns. According to the Basel Committee and the Saudi Arabian Monetary Agency, the Trading Portfolio's single exposure is to foreign currency exchange rates, which, in turn, is due to covering the Bank's needs for foreign currency.

## Investment Portfolios

The Investment Portfolio aims at achieving returns without relying on short-term market changes. The Bank invests within average-risk boundaries which can emerge due to the Bank's exposure to changing market rates. The exposure is controlled by policies and procedures set and implemented by the Bank's senior management and Board of Directors. The Market Risk Management is in charge of monitoring the Bank's exposure to market risk on a daily basis. The corresponding results are reported to senior management daily and to the Assets and Liabilities Committee and the Board of Directors periodically. In addition, the Market Risk Management performs a number of stress tests to assess the impact of exceptional scenarios of market changes in accordance with international standards and the Saudi Arabian Monetary Agency regulations. On the other hand, liquidity risk results from the Bank's inability to meet the net financial liabilities or fulfill them at an acceptable financial rate. Liquidity risk may also arise due to the declining quality of the Bank's assets or because of severe economic changes. To reduce exposure to liquidity risk, the Bank has worked on diversifying its funding sources, reducing the degree of concentration, and maintaining an acceptable level of liquidable assets. The Bank has also developed a number of liquidity risk policies and frameworks, as well as a contingency plan in line with the best management practices and supervision of liquidity risk issued by the Basel Committee. It has also resumed the application of Basel 3 standards to assess its ability to manage liquidity on a short-term and long-term basis. The Assets and Liabilities Committee plays a strategic role in cash flow accruals, concentrations of current and investment accounts, and the liquidity reserve rate to ensure the effective and adequate management of liquidity risk. Liquidity undergoes daily monitoring and any transgressions are directly reported to the concerned committees and the Board of Directors. Other liquidity stress tests are also conducted in normal or exceptional circumstances related to the Bank or resulting from external periodic factors. In addition to the limitations imposed by the Saudi Arabian Monetary Agency, the Bank has set internal limitations for controlling liquidity risk in accordance with the Bank's policies and procedures.

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

## Operational Risk

As the Basel Committee defines it, operational risk is the risk of losses resulting from inefficiency, failure in implementation of procedures, personnel, systems, or external factors. To better manage operational risk, the Bank has set forth a specific strategy within a framework of policies and procedures through which it aims at achieving a number of corresponding objectives including:

- Supporting the Bank's objectives
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems
- The total independence and continuity of assessment of procedures, monitoring controls, and performance
- Limiting operational losses and solving the causing problems at their roots

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

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

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

## Self-assessment of Risks

Albilad has applied the risk self-assessment governance policy and control elements to identify risks arising from the Bank's products, activities, and operations. Following risk identification, control elements are tested to identify the effectiveness of these elements in mitigating operational risk. The overall assessment of risk and control elements is compared to pre-defined criteria associated with the risk level and boundaries that are acceptable for achieving the targeted returns. Afterwards, the most suitable procedures are taken for enhancing the control environment. The Bank continues to provide employees with training programs that increase awareness of operational risk, thereby, increasing the effectiveness of control elements and identifying existing gaps.

## Limiting and Analyzing Operational Losses

The database of losses and Internal Auditing Management reports serve to supplement the risk self-assessment process and control elements and contribute to achieving better results. Albilad's system for data management of operational losses enables the Bank to collect and analyze data and incidents related to these losses – whether they're actual losses, potential losses, or losses that were almost incurred. Risks and control gaps responsible for loss-related incidents are identified. Recommendations for enhancing the associated control elements are presented in order to manage these identified risks and raise the issue to the management-in-charge to help reduce the financial consequences as much as possible.

## Key Risk Indicators

Albilad has adopted a methodology for identifying and analyzing key risk indicators. This helps in identifying the level of risk related to a certain activity or role. Assessment and control are applied throughout the duration of the risk management strategies concerning this specific activity. In addition, weakness are identified and rectified.

The Operational Risk Management methods are directly related to the periodic reporting system that aims to inform all departments and divisions with the operational risks related to their specific activities. The right feedback is sought in order to enhance the required control elements and mitigate these risks. The periodic reports also serves to support Senior Management's prospective decision-making process related to the Bank's activities.

## Compliance Division

Albilad has a clear vision of strict compliance to the rules and regulations of the supervisory and regulatory bodies, and has accordingly applied its compliance policy. As is the case with all other departments, the Compliance Division undergoes constant development in terms of work policies and automated systems. The division is keen on reviewing Albilad's policies, procedures, products, services, contracts, forms, and agreements. Policies in all business divisions are reviewed and updated to ensure adequate Bank support and compliance with all regulations. Far from providing a compliance guide to business departments concerning regular workflow, the definition of compliance has been provided through the Bank's internal electronic network with the aim of raising awareness about compliance issues. The Compliance Division works with the Bank's Training Department to develop workshops for employees and help build a culture of commitment among the Bank's staff and members. All customer transactions fall under the umbrella of a money-laundering control system. In addition, all transactions undergo periodic reviews and monitoring. Suspicious transactions are tracked, investigated, and reported to the Saudi Arabian Monetary Agency (SAMA) as well as the Saudi Arabian Financial Investigation Unit (SA-FIU).

## Internal Audit Division

The Internal Audit Division will implement the endorsed audit plan for the three-year period, 2011 to 2014 by applying the auditing system based on projected risks. These risks were identified through the Bank's comprehensive risk assessment project which was carried out by the Bank's Internal Audit Division in collaboration with the Executive Management and the Audit Committee. The Internal AuditDivision has renewed the project throughout the last quarter of 2012.

The Internal Audit Division has issued comprehensive reports concerning departments, branches, and centers covered in the 2012 plan. All related remarks and observations have been carefully examined and discussed with the concerned departments. Corrective solutions were provided and reviewed with the Executive Management and the Audit Committee for constant follow-up.

The division has also researched and prepared auditing reports concerning urgent issues and topics addressed by the Saudi Arabian Monetary Agency (SAMA), the Bank's Audit Committee, or management. In addition, it has performed the necessary follow-up reviews to ensure implementing all the necessary corrective measures recommended in the reports.

The Internal Audit Division seeks to attract qualified candidates and retain them within the internal audit team. In addition, the division works on training current employees to help expedite tasks and reach the required objectives within the duration specified in the internal audit plan. Its automated system facilitates work procedures by organizing and saving the internal audit work and contributes to future planning through providing necessary data that clarify the workflow and statistics for various inputs.

Through the presence of its quality control unit, the Internal Audit Division has raised performance standards, improved the workflow system, and enhanced the segment's output. In addition, an internal audit guide was developed including the methodology and framework of auditing procedures as well an internal audit charter with a detailed job description for every position within the division.

This also included managing fraud control for various cases of fraud and deceit. Necessary procedures are customized for every individual case along with carrying out the required investigation and coordinating with the respective Bank departments and official authorities.

## The Shariah Board and Shariah Division

Adherence to the provisions of Islamic Shariah in all transactions is one of Albilad's fundamental values, and this has enabled the Bank to realize its vision of becoming the leading provider of Shariah-compliant financial solutions. The Bank's Shariah Board was founded on this platform. It is an independent Board that has a clear set of objectives, missions and responsibilities. The Board is directly linked to the Shariah Division and is subject to the same managerial and financial regulations as all the other sectors in the Bank. It consists of six qualified members who have extensive knowledge in the science of Shariah and are specialized in modern financial operations. Stemming from the Shariah Board is a Preparatory Committee that consists of four Shariah Board members who perform thorough studies for devising the right products, prepare relevant topics for the Shariah Board, and solve urgent matters.

The Shariah Division is in charge of fulfilling the Shariah Board's requirements, and is divided into two departments. The first department is the Shariah Board Secretariat Department – in charge of conducting research and studies, preparing the coordinative tasks of the Shariah Board, and reporting the Board's decisions and directives. In other words, it is the link between the Bank's departments and the Shariah Board. The second department is the Shariah Audit Department – in charge of ensuring that every decision made by the Bank has received prior approval from the Shariah Board and that the implementation complies with the Board's directives. In addition, the department prepares quarterly reports and presents them to the Shariah Board.

## Information Technology Division

Information Technology plays a key role in achieving the various Bank strategies. In 2012, the division continued to achieve a set of key objectives including the launch of several systems for new products and services; enabling Albilad customers to access them easily through various e-banking channels and branches. In addition, the Bank was keen on improving a number of existing services and systems, as well as upgrading the IT infrastructure in alignment with the division's strategies. The most prominent 2012 achievements were as follows:

- Replacing ATM systems and releasing new banking cards that work according to the latest technological advancements. This has contributed to improving customer service and enabled customers to access many services without having to visit the Bank's branches.
- Upgrading the main banking system (Globus) to the latest R11 version.
- Launching the new stock trading system which enables Albilad customers to trade in the Saudi Stock Exchange market online and through smartphones. In addition, the TWS system for professionals provides investors with key instruments and effective information that help them monitor and anticipate market fluctuations; enabling them to make profitable real-time decisions. This system guarantees that Albilad Investment Company is a separate entity, entirely independent of Albilad Bank, which in turn coincides with the Saudi Capital Market Authority requirements, and enables the company to expand in the future and penetrate international stock markets.
- Launching the new Business Procedures Management System (BPM) which facilitates the operation and management of products such as "Sayyarati" for leasing that ends with transferred ownership. The system has also helped enhance the current shares financing product, providing customers with better and faster service.
- Launching the new version of "Albilad net" that offers e-banking services of international standards. In addition, customers can have their own customized online accounts and can choose from different backgrounds and designs. These advancements have contributed to building customer trust and ensuring online security. The new online service is also characterized by its unique display of services and easy access to user-friendly transactions. It provides comprehensive online support and guidance to program browsing and access to Albilad services.
- Launching the new version of Albilad Maak service which better reflects the Bank's image and positioning as a provider of the most advanced banking services through smartphones.
- Adding the "User Identification" service for Albilad cardholders when purchasing online – verified by Visa – free of charge. This enables customers to carry out their online purchases with utmost comfort and security.
- Launching the reporting system (Temenos Insight) which enables all the Bank's divisions to quickly and directly receive the various financial reports and data analysis.
- The IT Division has also contributed to the launch of various new products through providing full integration of their specific systems and applications including the Real-estate Financing Product through Leasing, clearing non-performing real estate contributions, the Infinite Visa Credit Cards, Medad card services through branches, phone banking, phone banking for private banking services, and product orders through online banking on the Bank's website.
- Applying several upgrades to the IT center's infrastructure including replacement of the original data storage system as well as adding CCTV monitoring cameras and a centralized air conditioning unit.
- Upgrading the optic fibers network and equipment in both the main IT center and the backup center for high-speed transfer of information among the different systems. In addition, the private network equipment has been replaced with highly advanced equipment that is directly linked to ATM machines. Integrated communication systems and e-faxing have also been upgraded, a local Wi-Fi network is now available at the Bank's headquarters to synchronize employees' internal calls and emails with their smartphones and enable the Bank's management to have online access through their laptops.
- Replacing the entire Bank's old computers and laptops with new devices that work with the Windows 7 Operating System, in addition to finalizing the printers and accessories leasing project, and installing multifunctional printers (MFP) in all Albilad and Enjaz branches.

Technical tests in accordance with the highest quality standards have been applied to all the achievements listed above. Special systems are used to enable the processing of these tests automatically and within the shortest duration possible.
In line with the Bank's positioning as one of the Kingdom's largest provider of products, the IT Division will continue to strive towards achieving further success in 2013, in accordance with its strategies, and will take sure steps towards accommodating the increase and variety in demands.

## Human Resources Division

In line with the Bank's firm conviction in the importance of human capital, Albilad Human Resources Division is committed to providing the best working environment and practices for employees. The division strives to be the perfect strategic partner for all the other divisions to help the Bank reach its objectives. This is achieved through focusing on the recruitment and retention of qualified national talents, which falls under the Bank's mission of providing job opportunities that match the Saudi market. The division also aims at providing a stimulating work environment that encourages employees to work with utmost professionalism and dedication in order to achieve the Bank's objectives. In addition, training and skill development workshops are constantly provided to qualified members of staff as well as recent graduates of local and international universities and colleges. In line with the Bank's policy of retaining highly skilled employees, tremendous efforts are invested in the development of incentive programs for all employees; giving them access to easy procedures and competitive programs. The division is also keen on providing full support to employees as well the best services and incentives that equally benefit the Bank and employees.

It is of no doubt that human resources constitute the main platform for current and future success. Accordingly, Albilad's University Graduate Program was successfully completed by a number of elite graduates with Bachelor's and Master's degrees from local and international universities. The graduates received professional career training in the latest banking and risk management methodologies, and were then allocated to work in several divisions under the supervision of experienced banking employees. This helps guarantee continuous development and transfer of banking expertise. In addition, we launched the 2012 University Graduate Program to benefit from its talent base for 2013 and the years after. These programs are derived from the bank's firm conviction in the importance of building a qualified generation of banking professionals who, in turn, contribute to developing advanced banking systems and customer service.

## Operations Division

The Operations Division plays a major role in supporting the success of the business division and has taken advantage of the rapid IT changes and applied them to best serve and cater to the business division's needs. The Division has greatly contributed to the management and implementation of many system-change requests to better serve customers and reduce the documentation cycle of the branches' operations while taking into account all the associated organizational aspects, risk management and control, and reduction of operational expenses. To achieve this objective, the Operations Division collects the information files and the banking documents from the Bank's and Enjaz branches for review according to the applicable regulations and laws that govern banking activities. Moreover, a storeroom was set up to preserve the Bank's documents for more organized archiving and easier access. Another project is in progress and concerns the development of a system that conserves photocopied documents and allows the person concerned to access these documents easily. During 2012, a currency and money exchange center was opened in Makkah, while another is currently being established in Madinah to serve the branches and the ATM machines. In addition, a trade financing center was set up in the Western Region to serve the corporate sector. Through its highly qualified employees, the center is capable of offering the ultimate in services to tradesmen and companies.

## The Administration and Premises Division

The Administration & Premises Division caters to all the Bank's asset-related requirements including branches, management and its corresponding purchases, contracts, engineering requirements, security, as well as other services such as launching tenders and carrying out all purchase operations, preparing various types of contracts as well their necessary governmental procedures, monitoring payments, and preparing payment certificates for contractors and suppliers, implementing all projects for Albilad Bank branches, Enjaz remittance services, and ATMs throughout the Kingdom. Responsibilities also include installing security systems and providing all the required security and monitoring measures, maintenance services, cleanliness and hygienic services, hospitality requirements, local and international mailing services, archiving, following up with governmental relations, in addition to preparing estimated budgets, and feasibility studies for the Bank's construction and departmental projects. The division also provides administrative support to the Bank's branches and management. The Administration & Premises Division and all its departments have handled the launching, execution, and delivery of a number of Albilad projects – Bilad, Enjaz, ATMs, and other projects throughout the Kingdom as follows:

## Albilad Branches Project

A total of 13 branches were fully completed, 6 of which were officially opened. Locations are Thuqba in Khobar, Abu Arish, West Dammam, Al-Rusaifa in Makkah, Al-Doha in Dhahran, and Al-Khafji branch.

## Enjaz Banking Services Project

A total of 22 Enjaz centers were completed, 18 of which were officially opened. Locations are Al-Murabba in Jeddah 221, Al-Salhiya in Riyadh 169, Al-Nairiyah 324, Al-Awali in Madina 206, Al-Sharafiyah Jeddah 262, South Khobar 322, Al-Sulay Industrial City in Riyadh 171, Al-Naseem in Riyadh 175, Qurban center in Madina 215, Jazan 295, Al-Khaleej in Riyadh 177, Al Madina Ring 205, Al-Kout in Ahsa 330, Turaif 108, Numais in Abha 292, AL-Jamoom 263, Al-Suwaidi in Riyadh 180, and Petromin in Jeddah 240.

## ATM-related Projects

A number of ATM projects were completed throughout the Kingdom as follows:

- 35 Drive-through ATMs
- 14 Room-type ATMs
- 76 Lobby ATMs
- 31 Window ATMs outside branches
- Out of the total, 146 ATMs were operated during 2012

## The Legal Division

The Legal Division specializes in providing law consultancy and handling legal affairs that facilitate the workflow throughout the Bank's departments and branches according to its adopted policy. The division's core objectives focus on protecting the Bank's rights and assets, defending these rights from third parties and making claims, providing legal advice, carrying out the legal and judicial procedures to safeguard its interests before third parties, and defending all the Bank's divisions and branches against any lawsuits.

## The Financial Division

The Financial Division's main focus is to ensure providing all the financial reports to the management on a timely basis and with utmost accuracy. This enables the management to make strategic decisions for the Bank's business. In alignment with this objective, various initiatives were undertaken to automate the preparation of reports and ensure adhering to The Saudi Arabian Monetary Agency regulations and international standards. The Financial Division also guarantees punctuality and proficiency in preparing reports to various regulatory authorities to avoid any penal action.

## Marketing and Communication Division

The Marketing and Communications Division continues to extend its support to the business divisions and other support sectors, emphasizing their role and highlighting the Bank's professionalism among the target audience through internal communication and public relation activities. The Bank also continues assuming its research and marketing role by providing the business divisions with data and statistics that support the implementation of the Bank's strategy, in addition to the Marketing and Communications Division's main role in availing of all the available communication channels – traditional and digital –to consolidate Bank Albilad's trade imprint as an Islamic, leading, and modern banking institution.

## Albilad Investment Company (ABIC)

Albilad Investment Company offers a wide range of Shariah-compliant services and investment solutions. It also invests its thorough knowledge and expertise, as well as its strong network with the Saudi market, to better serve its customers and help them realize their investment objectives. The company has acquired  its licenses from the Capital Market Authority to be able to pursue its investment activities, including investment banking, asset management, brokerage, as well as research and advisory services.

## Investment Banking

The Investment Banking department provides a unique range of Shariah-compliant services. It is considered a pioneer in providing corporate finance services through managing and implementing public and private offerings, IPO priority rights, and mergers and acquisitions, as well as underwriting and syndicating services. It provides products based on customer needs and prepares corporate financial evaluations to help determine a company's financial needs. This is handled by a specialized team of highly qualified experts. It also leverages its extensive professional network of financial, legal, and accounting firms to better serve its customers and help achieve their objectives. The Investment Banking department also maintains a large database of companies in the industrial, real-estate, and service sectors.

## Asset Management

The Asset Management Department offers investment funds and private portfolio management. Highly qualified experts identify customers' needs and take advantage of the perfect investment opportunities to provide the performance level that matches these needs. The Asset Management Department provides a bundle of diversified fund management services, including a range of investment options with various assets and coverage for different level of risks associated with investment stocks. In addition, the department offers private portfolio management to support large investors, individuals and corporations, to help create the perfect portfolio with the required risk level, as well as to help achieve their investment objectives within the expected timeframe. These services are provided to clients who prefer to benefit from the expertise of professional investment managers and experts in financial analysis and research. The investment portfolio is designed based on the client's needs, expected returns, and appropriate risk levels.

## Brokerage

Brokerage services enable customers to trade in the Saudi Stock Exchange through various channels that are effective and easy to use. Through the phone trading services, customers are directly connected with our central trading unit. Highly qualified brokers are always ready to take customer's calls, place orders in the Saudi Stock Exchange, and provide the latest stock market developments and updates. In addition, the company offers trading via Internet through which customers can easily check the latest stock prices, as well as buy and sell shares. Our online trading platform is efficient, easy-to-use, cost-effective, and extremely secure.

## Research & Advisory

The Research and Advisory team issues a number of reports and research studies to provide investors with a wider perspective of market fluctuations. Publications include the Weekly Report on the Saudi Stock Market – issued every Saturday. The report summarizes the market movements over the previous week and forecasts market changes for the week after. The team also publishes reports on the forecast of corporate results before the beginning of the results' announcement season. After the quarterly announcement period ends, another report is issued to discuss the detailed results for companies listed in the Saudi Stock market. In addition, the team provides several economic studies that thoroughly cover various financial and economic issues, including the latest developments in the local economy.

## Albilad Real Estate Company

Albilad Real Estate Company is a limited liability company that was established on 26/03/1427 Hijri, corresponding to 24/04/2006, in accordance with the companies' law promulgated by Royal Decree no. M/6 dated 22/03/1385 Hijri, and with Commercial Registration number 1010223341, issued on 24/08/1427 Hijri.

## Company Objectives

The company is specialized in buying and selling real estate, mortgages, releasing endowment property, renting mortgages, handling of transferred assets on behalf of the Bank and third parties.

# Board of Director's Report

# Board of Director's Report

Bank Albilad board of Directors is pleased to present to the bank shareholders the annual report which is the bank activities, achievements and the financial results for year ended December 31, 2012.

## Operational Results

The Bank reported a net income of SAR 942 million with an increase of 185% for the year 2012. This was mainly due to gaining of SAR 373 million as a non-operating income (Extra-ordinary) from selling its land in Aldereiah in Q1 2012 . After excluding the non-operating income, the net operating income is SAR 569 million with an increase of 72.4% compared to the year 2011, and this increase is due to the increase in operating income by 26.4% at SAR 1,737 million compared to SAR 1,374 million for the year 2011, because of the increase in income from financing and investment activities to SAR 840 million with an increase of 19.5% compared with last year. These investments includes, Murabaha, Bai Ajel, Musharakah, Installment Sales and Ijarah.

The net fee income from banking services increased compared to 2011 by 40.8% to reach of SAR 645 million, and the net foreign exchange income increase by 23.8% to reach of SAR 234 million.

The operating expenses increased by 12% at SAR 1,168 million including of SAR 275 million provisions for financing with an increase of 9% compared to the year 2011 to support the bank financial position against the growth in the financing portfolio.

On the infrastructure side, the Bank during the year 2012 opened 6 branches to reach 88 branches, and opened 18 remittance centers ( Enjaz) to reach 144 centers at the end of 2012.

On the electronic banking side, the Bank during the year 2012 added 146 Automated Teller Machine (ATMs) to reach 728 ATMS at the end of 2012 to cover the kingdom of Saudi Arabia regions, and added 514 point of sale to reach 1,751 point of sale at the end of the year 2012.

## Financial Position

Total assets of the Bank at the end of 2012 were SAR 29,778 million, an increase of 7.4% compared with last year. The customer deposits at the end of the year, reached SAR 23,742 million, recording an increase of SAR 704 million, represent an increase of 3%. The net financing also increased to SAR 18,256 million compared to SAR 13,780 million for the last year reflecting an increase of 32.5%.

## Shareholders' Equity

Shareholders equity stood at the end of the year 2012 at SAR 4,371 million, compared to SAR 3,416 million at the end of 2011. The number of ordinary shares are 300 million shares. The Capital Adequacy Ratio at the end of 2012 was at 18.52% compared to the minimum requirement of 8%.

The bank achieved 3.3% as a return on average assets while the return on average shareholders' equity is 24.2% and earnings per share is SAR 3.14 per share.

## Financial Comparisons

1. The following is an analysis of the major items of Consolidated statement of financial position: (SAR in millions)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Net investment | 1,537 | 951 | 1,611 | 1,534 | 1,883 |
| Net financing | 18,256 | 13,780 | 12,290 | 11,014 | 8,276 |
| Total assets | 29,778 | 27,727 | 21,117 | 17,411 | 16,052 |
| Customer deposits | 23,742 | 23,038 | 16,932 | 13,721 | 10,971 |
| Total liabilities | 25,407 | 24,311 | 18,014 | 14,409 | 12,839 |
| Total Equity | 4,371 | 3,416 | 3,103 | 3,002 | 3,213 |

2. The following analysis of the major items of Consolidated income statement: (SAR in millions)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Net income from investing and financing assets | 840 | 703 | 625 | 548 | 578 |
| Net banking fees | 645 | 458 | 342 | 280 | 230 |
| Net foreign currency exchange gains | 234 | 189 | 121 | 74 | 78 |
| Total operating income | 1,737 | 1,374 | 1,099 | 909 | 888 |
| Impairment charge for investing and other financial assets | - | - | 47 | 61 | 65 |
| Impairment charge for financing assets | 275 | 252 | 242 | 302 | 20 |
| Total operating expenses | 1,168 | 1,044 | 1,007 | 1,157 | 763 |
| Non-operating income | 373 | - | - | - | - |
| Net income (losses)for the year | 942 | 330 | 92 | (248) | 125 |

## Non-Operating Income

During the year the Bank sold a parcel of land included under other assets at carrying value of SAR 280 million. The Bank acquired the land in 2007 for its own use. The land was sold for a total consideration of SAR 653 million.

The Bank issued Bei Ajel facility for the amount of SAR 503 million to Company acquiring the land (the"Company"), which had fully utilized the issued facility. Based on the facility terms, the financed amount is repayable in two installments on February 2013 and August 2013. As a result of the sale, the Bank recognized non-operating income of SAR 373 million, with income per share amounting to SAR 1.2 per share.

The financing is secured by personal guarantee of borrowing Company's shareholders and also the title of land, which has been retained by the bank pending the collection of the full facility

## Major Activities

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

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

Major activities of the Bank as at December 31, 2012 are summarized in the following table: (SAR in millions)

| 2012 | Retail Banking | Corporate Banking | Treasury | Investment banking and brokerage | Other | Total |
|---|---|---|---|---|---|---|
| Total assets | 9,780 | 11,573 | 7,568 | 1 | 856 | 29,778 |
| Capital expenditures | 36 | - | - | 2 | 58 | 96 |
| Total liabilities | 16,498 | 7,320 | 494 | 86 | 1,009 | 25,407 |
| Net income from investing and financing assets | 344 | 445 | 51 | - | - | 840 |
| Fee, commission and other income, net | 657 | 54 | 74 | 63 | 49 | 897 |
| Total operating income | 1,001 | 499 | 125 | 63 | 49 | 1,737 |
| Impairment charge for financing,net | 83 | 192 | - | - | - | 275 |
| Depreciation and amortization | 75 | 12 | 1 | - | - | 88 |
| Total operating expenses | 733 | 370 | 32 | 33 | - | 1,168 |
| Net operating income | 268 | 129 | 93 | 30 | 49 | 569 |
| Non-operating income | - | - | - | - | 373 | 373 |
| Net income for the year | 268 | 129 | 93 | 30 | 422 | 942 |

## Geographical Analysis of the Revenues

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

| | Central | Western | Eastern | Total |
|---|---|---|---|---|
| Gross revenue for 2012 | 996 | 500 | 241 | 1,737 |

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

## Subsidiaries

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

## Future Plans

Bank AlBilad continues offering a wide variety of products and services to cater the needs of its customers in all segments i.e. retail, corporate, commercial and SME. The strategical focus of the Bank is to continuously expand & improve its product suite, network infrastructure, alternate channels and other technology based solutions.

The business plan of the Bank is meticulously followed to ensure achievement of the same or if required to be revised based on business priorities or other factors.

## Risk Management

The Bank is exposed to various risks from its activities, which is an essential component of the nature of banking business. These risks are monitored and managed through the Bank's Risk Group, which represents financial risk management, credit, market and operational risk. The details for these risks are mentioned in notes 27 to 31 of the consolidated financial statements attached to Board of Directors report.

## Accounting Standards Applicable

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

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

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

The bank has implemented all the requirements of the corporate governance law except following article:

| Article | Description | Reasons |
|---|---|---|
| Article 6 paragraph (B) 2 | In case the article of association of the company indicates to use the cumulative voting, did the company use it when electing the existing board of directors in the general assembly? | Voting paragraph have been changed in the article of association in the extraordinary general assembly |
| Article 6 paragraph (D) | Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments. | The bank does not have the authority to enforce judicial persons to disclose voting policies in their annual reports. |
| Article 12 paragraph (I) | Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors. | There is no representative or judicial persons in the board of directors. |

## The Board of Directors

The Board of Directors consists of 11 members, who were elected in the General Assembly meeting held on 25/04/1431H, corresponding to April 10, 2010 for three years with effect from 03/05/1431H corresponding to April 17, 2010 until 06/06/1434H corresponding to April 16, 2013.

The Board held five meetings during the year 2012 with the following attendance record of these meetings:

| Name | Member | | | | |
|---|---|---|---|---|---|
| | 17/01/2012 | 12/03/2012 | 06/06/2012 | 18/09/2012 | 18/12/2012 |
| Mr.Musaed bin Mohammad Al Sinani | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr.Ibrahim bin Abdullah Al Subaie | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr. Ibrahim bin Abdul Rahman Al-Barrak | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr. Abdul Rahman bin Ibrahim Al Hamid | ✓ | ✓ | ✓ | ✓ | ✓ |
| Eng. Ali bin Othman AlZaid | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr.Adib bin Abdullah Al Zamil | X | ✓ | X | X | ✓ |
| Mr Abdulrhaman bin Mohammed Remzi Addas | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr.Nasser bin Mohammed Al Subaie | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr.Khalid bin Abdul Aziz Al Mukairin | X | ✓ | ✓ | ✓ | ✓ |
| Mr.Khaled bin Abdulrahman Al-Rajhi | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Mohammed bin Abdullah AlQuwaiz | ✓ | ✓ | ✓ | ✓ | ✓ |

## Memberships in other Joint Stock Companies

| | Member | Company Name | Position | Type of Company |
|---|---|---|---|---|
| 1 | Mr. Musaed bin Mohammad Al Sinani | Saudi Hotels & Resort Areas | Chairman | Listed |
| 2 | Mr. Ibrahim bin Abdullah Al Subaie | Jabal Omar Development Co | Member | Listed |
| | | Makkah Construction and Development | Member | Listed |
| 3 | Mr. Nasser bin Mohammed Al Subaie | Saudi Hotels & Resort Areas | Member | Listed |
| | | Mohammed Ibrahim Alsubaie & Son Co (Masic). | Member | Limited liabilities |
| | | Mohammed & Abdullah Alsubaie Investment Co | Member | Limited liabilities |
| | | Alrjan projects Co | Chairman | Closed |
| | | Alrjan houses Co | Chairman | Limited liabilities |
| | | Akwan Real Estate Co | Member | Closed |
| | | National Prawn Co. | Member | Limited liabilities |
| 4 | Mr.Khalid bin Abdul Aziz Al Mukairin | Albilad Investment Co. | Chairman | Limited liabilities |
| | | Al Mukairin Holding Group | Chairman | Limited liabilities |
| | | Almaktabah marketing Co. | Chairman | Closed |
| | | Family investment Co. | Chairman | Limited liabilities |
| | | Real State Financing Co | Chairman of Establishment Committee | Closed |
| 5 | Mr. Khalid bin Abdulrahman Al-Rajhi | Saudi Cement Company | Member | Listed |
| | | Saudi United Cooperative Insurance Co(Walaa) | Member | Listed |
| | | Takween Advanced Industries Co. | Member | Listed |
| | | Abdulrahman Saleh Al Rajhi & Partners Co, Ltd. | Chief Executive | Limited liabilities |
| | | Fhakrey & Alrajhi Hospital | Chairman | Limited liabilities |
| | | Health Care Hospital (Pro Care) | Chairman | Limited liabilities |
| | | Alslam School | Chairman | Private |
| | | Tnami Arabic Co,Ltd. | Member | Limited liabilities |
| 6 | Mr. Adib bin Abdullah Al Zamil | Zamil Industrial Investment Co. | Member | Listed |
| | | Methanol Chemicals Co. | Member | Listed |
| | | Saudi International Petrochemical Co. | Member in the audit committee | Listed |
| | | Jadwa Investment Co. | Member | Closed |
| | | Alzamil Holding Group | Member for financial and investment affairs | Family Company |
| | | Arabic Saudi investment Co | Member in Board & in the risk committee | Closed |
| 7 | Dr. Abdul Rahman bin Ibrahim Al Hamid | Saudi Vitrified Clay Pipe | Member | Listed |
| | | Alrajhi Holding Co. | Member | Closed |
| | | Mohammed Ibrahim Alsubaie & Son Co (Masic). | Member | Limited liabilities |
| | | HNC Co | Chairman | Limited liabilities |

| | | | | |
|---|---|---|---|---|
| 8 | Mr. Abdulrhaman bin Mohammed Remzi Addas | Al Sorayai Trading And Industrial Group | Member in Board & in the audit committee & in Nominations and Remuneration Committee | Listed |
| | | Sedco Capital Co. | Member in Board &Chairman of the Audit Committee and the risk and compliance | Private |
| | | Red Sea Markets Company Ltd. | Member in Board & Executive Committee | Private |
| | | Quantum Investments Bank (Dubai) | Member | Private |
| | | Keppel growth Development Ltd. | Chairman of the Board of Directors | Mixed Share with Foreign investor |
| | | Diar Alkhial Co, Ltd For real state development | Chairman of the Board of Directors | Private |
| | | Almanarh Fund, Ltd (Dubai) | Member | Private |
| | | Abdulaziz Al Suqhayer Holding Co | Member | Private |
| | | Stusid kBank (Tunis) | Member | Government investment Owned by the Ministry of Finance Saudi Arabia and the Tunisian government |
| | | Arcoma Co | Member | Private |
| 9 | Eng. Ali bin Othman Alzaid | Hail Cement Company | Member | Listed |
| | | Knowledge Real Estate Co. | Chairman | Closed |
| 10 | Mr. Mohammed bin Abdullah AlQuwaiz | Derayh Capital Co. | Managing Director | Closed |

## The Status of Board of Directors

| Member | Position | Status |
|---|---|---|
| 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 bin Othman AlZaid | Member | Independent |
| Mr.Adib bin Abdullah Al Zamil | Member | Independent |
| Mr. Abdulrhaman bin 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 bin Abdullah AlQuwaiz | Member | Independent |

## Major Shareholders

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

| | Shareholder Name | Percentage % |
|---|---|---|
| 1 | Mohammed Ibrahim Mohammed AlSubaie | 11.67 |
| 2 | Abdullah Ibrahim Mohammed AlSubaie | 11.14 |
| 3 | Abdulrahman Saleh Abdulaziz AlRajhi | 7.04 |
| 4 | Abdulrahman Abdulaziz Saleh AlRajhi | 6.57 |
| 5 | Mohammed Ibrahim AlSubaie & Sons Co | 5.33 |

## Shareholding of Board Members, their Wives and Children

The shareholding of Board members, their wives and children as at the end of December 2012 compared to December 2011 is as follows:

| | Name | December 2012 | December 2011 | Net change | Net change in percentage |
|---|---|---|---|---|---|
| 1 | Mr. Musaed bin Mohammad Al Sinani | 25,065 | 25,065 | - | - |
| 2 | Mr. Ibrahim bin Abdullah Al Subaie and his family | 32,435 | 17,635 | 14,800 | 83.92% |
| 3 | Dr. Ibrahim bin Abdul Rahman AlBarrak | 40,566 | 40,566 | - | - |
| 4 | Dr. Abdul Rahman bin Ibrahim Al Hamid | 1,000 | 1,000 | - | - |
| 5 | Eng. Ali bin Othman AlZaid | 1,000 | 1,000 | - | - |
| 6 | Mr. Adib bin Abdullah Al Zamil | 7,500 | 7,500 | - | - |
| 7 | Mr. Abdulrhaman bin Mohammed Remzi Addas | 2,000 | 2,000 | - | - |
| 8 | Mr. Nasser bin Mohammed Al Subaie and his family | 899,115 | 507,490 | 391,625 | 77.17% |
| 9 | Mr. Khalid bin AbdulAziz AlMukairin | 419,342 | 479,342 | (60,000) | (12.52%) |
| 10 | Mr. Khaled bin Abdulrahman Al-Rajhi | 11,544,854 | 9,100,000 | 2,444,854 | 26.87% |
| 11 | Mr. Mohammed bin Abdulallh AlQuwaiz and his family | 4,160 | 2,160 | 2,000 | 92.59% |

## 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 2012 compared to December 2011 is as follow:

| | Name | December 2012 | December 2011 | Net change | Net change in percentage |
|---|---|---|---|---|---|
| 1 | Mr. Khalid bin Suleiman Al-Jasser | 120 | 120 | - | - |
| 2 | Mr. Abdul Rahman Bin Hamad Al Suqhayer | 85 | 85 | - | - |
| Total number of shares | | 205 | 205 | - | - |

## 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:

| | Members of Non-Executive Board | Seven Senior Executives including the Chief Executive and Chief Financial Officer |
|---|---|---|
| Salaries and remunerations | - | 13,348,705 |
| Periodic and annual allowances and rewards | 3,729,000 | 4,675,100 |
| Total | 3,729,000 | 18,023,805 |

## Arrangements with Shareholders, Board Members or Senior Executives for Waiver of Salaries, Remunerations or Dividends

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

## Interest in Shares with Voting Eligibility

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

## Bank's Loan Obligations, Debt, Convertible Debt, Redeemable Debt, Optional Rights

The Bank and its subsidiaries do not have any loan obligation, debt instrument or convertible debt instrument outstanding and has not issued any such instrument during the year 2012. The bank has not redeemed, purchase or cancelled any debt instrument, convertible debt, redeemable debt, option, rights etc. during the year 2012.

## Board Committees

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

## Executive Committee

The responsibilities of this Committee include the application of the Bank's policies, internal performance control, risk management and efficacy of managing the Bank's businesses. During the year 2012, 12 meetings of the Executive Committee were held.

The Executive Committee consists of the following six (6) 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 bin Mohammed Remzi Addas | Member |
| Mr.Khalid bin Suleiman Al-Jasser | Member |

## Audit Committee

The responsibilities of the audit committee include supervision of internal audit division, including review of audit procedure, audit reports and corrective measures, to recommend to the Board appointment of the external auditors and fixing their remuneration, to supervise the activities of the external auditors and review their comments on the financial statements, to recommend the quarterly and annual financial statements to the Board for approval and to review the accounting policies adopted by the bank and give recommendations for any change, addition or deletion, if any. During the year 2012, 11 meetings of the Audit Committee were held.

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 | |

## Nominations and Remuneration Committee

The Committee is responsible for making recommendations to the Board for nomination for the Board membership, performing annual revisions of the requirements for suitable skills for the Board membership; and revising the Board structure. Its tasks also includes submitting strength and weakness of the Board and making recommendations for members, ensuring timeliness of holding ordinary meetings of the Board and documenting its meetings, verify caution the independence status of the independent members. The Nominations and Remuneration Committee is also responsible for ensuring that there is no conflict of interests, setting up the reward and incentive policy for the Board and executive based on performance, and following up human resources related issues. During the year 2012, 4 meetings of the Nominations and Remuneration Committee were held.

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

| Member name | Position |
|---|---|
| Mr. Abdulrhaman 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 Internal Control System

The Internal Control framework of Bank Albilad is approved by the Board of Directors. Bank Albilad's management is responsible for implementation of the internal control system and for reviewing the same at regular intervals to ensure its effectiveness.

The internal control framework ensures that all relevant controls are in place to avoid major risks including credit, liquidity, operational risk, violation of law or regulations, unauthorized activities and fraud. In addition to regular reviews by the concerned departments, exposures to these risks are covered by various management committees formed for monitoring the control framework.

The Operational Risk and Compliance functions also monitor the control environment during their respective reviews in close coordination with each other. The Internal Audit function provides the management with an independent and objective assessment of the effectiveness of the control framework. This objective is achieved by following a risk based audit plan which is approved by the Audit Committee. The Internal Audit is also responsible for investigating any fraud case detected within the Bank and applying the necessary procedure for investigation. The Anti-Fraud and Investigation department within the Internal Audit function also performs regular fraud and investigation related awareness sessions for the Bank's employees. As result of the internal control system that there is no significant notes from control departments.

## Shariah Commitment

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

1. The Bank does not implement any product, contract, or agreement unless it has been submitted to, and approved by the Shariah Board.
2. Rulings of the Shariah Board are binding to the Bank

3. The Shariah Board and Shariah Group contribute to the development of products with respect to their compliance with the Shariah rules.
4. The Shariah Board and Shariah Group contribute to disseminating awareness of the Islamic banking concepts within the Bank.

## Shariah Board

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

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

## Preparatory Committee

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

1. Studying the issues forwarded to the Board for initial perusal and verification prior to submission 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 and provide necessary guidance.

During the year 2012, the Shariah Board held 7 meetings, and the Preparatory Committee held 24 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 test with relevant departments, thereby ensuring that reasonable degree of conviction is present as regards to Bank's commitment to Islamic banking.

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

## Due to Regulatory Authorities

(SAR in millions)

| | 2012 | 2011 |
|---|---|---|
| Zakat | 25 | 10 |
| GOSI | 3.7 | 3.3 |

## Zakat

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

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

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

Zakat due from the shareholders for the year ended December 31, 2012 amounted to SAR 25 million (2011: SAR 10 million). Zakat will be paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

## Fines imposed on the Bank by the supervisory authorities

The bank did not get any significant fines during the year 2012, and most of the fines imposed due to operational processes and were resolved amicably.

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

| Supervisory Authority | The number of fines | Total amount |
|---|---|---|
| Saudi Arabian Monetary Agency | 11 | 679,642 |
| Capital Market Authority | 5 | 170,000 |
| Ministry of Municipal and Rural Affairs | 168 | 838,100 |

## Dividend Policy

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

1. Calculate the due Zakat amount on the shareholders which the bank pays on behalf of the shareholders.

2. The bank will transfer 10% (ten percents) of its net profit after deducting Zakat to the statutory reserve until this reserve equals the paid up capital.

3. Five percent (5%) of the paid up capital of the rest of the profit after the deduction of statutory reserve and Zakat will be allocated as dividend in accordance with the Board of Directors' recommendation and the approval of the general assembly meeting. If the rest of the profit less than 5%, the shareholders do not have the right of dividend payment. The general assembly meeting does not have the right to propose a dividend in excess of the amount recommended by the Board of Directors.

4. The usage of the remaining profit, if any, will be subject to Board of Directors' recommendation and approval from general assembly meeting.

   - With regards to point 2 of dividend policy, (The Saudi Arabian Banking Control Law requires the bank to transfer 25% of its net profit transfer it to the statutory reserve until this reserve equal the paid up capital and the Bank follows this law irrespective of its Article as mentioned in point 2 above.

   - With regards to point 3, the Board of Directors have not recommended any cash dividend distribution for the year 2012 and had recommended to Extra-Ordinary General Meeting scheduled on April 9, 2013 to increase the capital from SAR 3 billion to SAR 4 billion by issuing bonus shares to its shareholders in the ratio of one share for every 3 shares held to the shareholders registered in the Bank's shareholders register as at the end of trading on the Extra-Ordinary General Meeting day.

## Bank Credit Rating

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

## Human Resources

The total number of the Bank's employees as at the end of 2012 was 2,540 (Two Thousand and Five Hundred Forty (employees compared to 2,247(Two Thousand and Two Hundred Forty Seven (employees at the end of 2011. The Saudization percentage at the end of 2012 was 72%. The Bank recruits employees on the basis of high competence and banking experience and follows ethical and professional standards as referred in Bank's employee code of conduct . It has organized and implemented specialized training courses for newly recruited university and administrative institute graduates, in addition to developmental courses offered to all employees. During the year 2,474 staff members of the Bank undergone various trainings.

## End of Service Benefits

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

## Employees Share Plan

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

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

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

| | 2012 | 2011 |
|---|---|---|
| Grant date | 12 May 2012 | 17th December 2011 |
| Maturity Date | 1 January 2015 | 1st January 2014 |
| Number of share offered on the grant date | 319,624 | 159,000 |
| Share price on the grant date (SAR) | 28.20 | 19.60 |
| Value of shares offered on grant date (SAR'000) | 9,013 | 3,116 |
| Vesting period | 3 years | 3 years |
| Vesting condition | Employees to remain in service | Employees to remain in service |
| Method of settlement | Equity | Equity |

| The movement in the number of shares is as follows | 2012 | 2011 |
|---|---|---|
| Beginning of the year | 159,000 | - |
| Granted during the year | 319,624 | 159,000 |
| Forfeited | 41,100 | - |
| Exercised | - | - |
| End of the year | 437,524 | 159,000 |

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

## Contracts with Related Parties

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

## a- Directors, and other major shareholders and their affiliates balances

| | 2012 | 2011 |
|---|---|---|
| | SAR'000 | SAR'000 |
| Bei ajel | 1,073,879 | 1,601,817 |
| Musharaka | 45,415 | 34,663 |
| Commitments and contingencies | 21,441 | 67,965 |
| Current accounts | 23,598 | 20,726 |
| Al Bilad account | 651 | 1,583 |

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

## b- Bank's Mutual funds

| | 2012 | 2011 |
|---|---|---|
| | SAR'000 | SAR'000 |
| These are the outstanding balances with | | |
| Bank's mutual funds as of December 31: | | |
| Customer deposits | 7,286 | 5,274 |

## 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:

| | 2012 | 2011 |
|---|---|---|
| | SAR'000 | SAR'000 |
| Income from financing | 62,639 | 21,233 |
| Income from commitments and contingencies | 197 | 743 |
| Management fees (AlBilad mutual funds) | 13,082 | 11,043 |
| Board of Directors' remunerations | 3,729 | 4,180 |
| Compensations, remuneration and bonuses and end of service benefits to executive management members | 41,963 | 37,304 |

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

## External Auditors

In the General Assembly meeting held on 25 Jumada Al-awwal 1433, corresponding to April 17, 2012 was appointed Messrs Aba Alkhir Deloitte and Ernst & Young Office as External Auditors of the bank until the end of the first quarter on March 31, 2013.

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

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

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

# Consolidated Financial Statements For the year ended December 31, 2012

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

ERNST & YOUNG

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bank AlBilad (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated income statement, statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited note 34, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

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

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

ERNST & YOUNG



**Opinion**

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by SAMA and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

**Ernst & Young**
P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Rashid S. AlRashoud

Certified Public Accountant
Registration No. 366

**Deloitte and Touche**
**Bakr Abulkhair & Co**
P O Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Ehsan A. Makhdoum

Certified Public Accountant
Registration No. 358

(1 Rabi Thani 1434H)
11 February 2013

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2012 AND 2011

| | Notes | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|---|
| ASSETS | | | |
| Cash and balances with SAMA | 4 | 2,932,369 | 5,834,702 |
| Due from banks and other financial institutions, net | 5 | 6,575,466 | 6,454,366 |
| Investments, net | 6 | 1,537,260 | 951,458 |
| Financing, net | 7 | 18,255,676 | 13,779,746 |
| Property and equipment, net | 8 | 336,225 | 328,436 |
| Other assets | 9 | 140,505 | 378,461 |
| Total assets | | 29,777,501 | 27,727,169 |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| | | | |
| Liabilities | | | |
| Due to banks and other financial institutions | 10 | 570,830 | 421,837 |
| Customers' deposits | 11 | 23,741,624 | 23,037,934 |
| Other liabilities | 12 | 1,094,231 | 851,148 |
| Total liabilities | | 25,406,685 | 24,310,919 |
| | | | |
| Shareholders' equity | | | |
| Share capital | 13 | 3,000,000 | 3,000,000 |
| Employee share plan | 38 | (37,165) | (41,097) |
| Statutory reserve | 14 | 370,104 | 134,653 |
| Other reserves | 6 (a)&15 | 15,066 | 6,236 |
| Retained earnings | | 1,022,811 | 316,458 |
| Total shareholders' equity | | 4,370,816 | 3,416,250 |
| Total liabilities and shareholders' equity | | 29,777,501 | 27,727,169 |

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Notes | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|---|
| INCOME: | | | |
| Income from investing and financing assets | 17 | 860,553 | 727,934 |
| Return on deposits and financial liabilities | 18 | (21,039) | (24,948) |
| Net income from investing and financing assets | | 839,514 | 702,986 |
| | | | |
| Fees and commission income, net | 19 | 645,300 | 458,296 |
| Exchange income, net | | 234,004 | 189,436 |
| Dividend income | 20 | 11,717 | 10,884 |
| Gains on non-trading investments, net | 21 | 5,225 | 7,396 |
| Other operating income | 22 | 1,620 | 4,510 |
| Total operating income | | 1,737,380 | 1,373,508 |
| | | | |
| EXPENSES: | | | |
| Salaries and employee related benefits | 23 | 517,357 | 448,977 |
| Rent and premises related expenses | | 133,983 | 111,276 |
| Depreciation and amortization | 8 | 88,020 | 88,689 |
| Other general and administrative expenses | | 154,163 | 142,699 |
| Impairment charge for financing,net | 7(a) | 275,220 | 252,242 |
| Total operating expenses | | 1,168,743 | 1,043,883 |
| Net operating income for the year | | 568,637 | 329,625 |
| Non-operating income | 24 | 373,167 | - |
| Net income for the year | | 941,804 | 329,625 |
| Basic and diluted earnings per share (Saudi Riyals) | 25 | 3.14 | 1.10 |

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Note | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|---|
| Net income for the year | | 941,804 | 329,625 |
| Other comprehensive income: | 6(a) | | |
| - Available for sale financial assets | | | |
| Net changes in fair value | | 14,055 | (9,979) |
| Net amount transferred to consolidated income statement | | (5,225) | (7,396) |
| Total comprehensive income for the year | | 950,634 | 312,250 |

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | | | | SAR' 000 | | | |
|---|---|---|---|---|---|---|---|
| 2012 | Notes | Share capital | Employee share plan | Statutory reserve | Other reserves | Retained earnings | Total |
| Balance at the beginning of the year | | 3,000,000 | (41,097) | 134,653 | 6,236 | 316,458 | 3,416,250 |
| Total comprehensive income for the year | | - | - | - | 8,830 | 941,804 | 950,634 |
| Employee share plan reserve | 38 | - | 3,932 | - | - | - | 3,932 |
| Transfer to statutory reserve | 14 | - | - | 235,451 | - | (235,451) | - |
| Balance at the end of the year | | 3,000,000 | (37,165) | 370,104 | 15,066 | 1,022,811 | 4,370,816 |
| | | | | | | | |
| 2011 | | | | | | | |
| Balance at the beginning of the year | | 3,000,000 | (42,136) | 52,246 | 23,611 | 69,240 | 3,102,961 |
| Total comprehensive income for the year | | - | - | - | (17,375) | 329,625 | 312,250 |
| Employee share plan reserve | 38 | - | 1,039 | - | - | - | 1,039 |
| Transfer to statutory reserve | 14 | - | - | 82,407 | - | (82,407) | - |
| Balance at the end of the year | | 3,000,000 | (41,097) | 134,653 | 6,236 | 316,458 | 3,416,250 |

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Note | 2012<br>SAR' 000 | 2011<br>SAR' 000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income for the year | | 941,804 | 329,625 |
| Adjustments to reconcile net income to net cash from / (used in) operating activities: | | | |
| Gains on non-trading investments, net | | (5,225) | (7,396) |
| Gains from disposal of property and equipment, net | | (1,356) | (2,473) |
| Depreciation and amortization | | 88,020 | 88,689 |
| Impairment charge for financing, net | | 275,220 | 252,242 |
| Non-operating income | | (373,167) | - |
| Operating profit before changes in operating assets and liabilities | | 925,296 | 660,687 |
| | | | |
| Net (increase) / decrease in operating assets: | | | |
| Statutory deposits with SAMA | | (363,461) | (190,350) |
| Due from banks and other financial institutions | | | |
| maturing after ninety days from the date of acquisition | | (786,469) | (403,073) |
| Investments | | (500,168) | 700,486 |
| Financing | | (4,248,108) | (1,742,161) |
| Other assets | | (41,919) | (34,096) |
| Net increase/ (decrease) in operating liabilities: | | | |
| Due to banks and other financial institutions | | 148,993 | 39,408 |
| Customers' deposits | | 703,690 | 6,105,519 |
| Other liabilities | | 243,083 | 152,267 |
| Net cash (used in) from operating activities | | (3,919,063) | 5,288,687 |
| | | | |
| INVESTING ACTIVITIES | | | |
| Purchase of non-trading investments | | (264,751) | (252,559) |
| Proceeds from sales of non-trading investments | | 193,172 | 201,555 |
| Purchase of property and equipment | | (96,446) | (83,635) |
| Proceeds from sale of property and equipment | | 1,993 | 10,873 |
| Proceeds from sale of land | | 150,000 | - |
| Net cash used in investing activities | | (16,032) | (123,766) |
| FINANCING ACTIVITIES | | | |
| shares for employee share plan, net | | 3,932 | 1,039 |
| Net cash from financing activities | | 3,932 | 1,039 |
| (Decrease) Increase in cash and cash equivalents | | (3,931,163) | 5,165,960 |
| Cash and cash equivalents at beginning of the year | | 9,007,824 | 3,841,864 |
| Cash and cash equivalents at end of the year | 26 | 5,076,661 | 9,007,824 |
| | | | |
| Income received from investing and financing assets | | 586,299 | 703,695 |
| Return paid on deposits and financial liabilities | | 13,977 | 31,196 |
| Supplemental non cash information | | | |
| Net changes in fair value reserve & net amount transferred to consolidated income statement | | 8,830 | (17,375) |
| Financing provided towards sale of land | | 503,042 | - |

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements For the Years Ended December 31, 2012 and 2011

# 1. General

## a) Incorporation and Operation

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

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

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

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, 'AlBilad 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 Bank provides these services through 88 banking branches (2011: 82) and 144 exchange and remittance centers (2011: 126) 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 by- laws

## b) Basis of Measurement

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

## c)Functional and Presentation Currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group 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 critical accounting judgment estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management uses estimates, assumptions or exercised judgments are as follows:

### (i) Impairment 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 in the Group.

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

## (ii) Fair Value of 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 market 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 judgment, 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.

## e) Going Concern

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

# 3. Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies used in the preparation of these consolidated financial statements are consistent with those of the prior year except for amendments to IFRS 7 – Financial Instruments: Disclosures - Transfers of Financial Assets.

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

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

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

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

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

## 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 year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

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

## d) Offsetting

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

## e) Due from banks and other financial institution, Investments and financing

### 1) Due from banks and other financial institutions

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

### 2) Investments

The Bank classifies its investments as follows:

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

**Available for sale investments** - Available–for–sale investments are non-derivative financial instruments that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.
Available for sale investments are initially recognized at fair value including acquisition charges associated with the investments and are subsequently measured at fair value. Unrealized gain / loss for a change in fair value is recognized in "other reserves" under equity. On de-recognition gain / loss previously recognized in equity is included in the consolidated income statement.

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

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

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

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

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

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

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

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

## f) Impairment of financial assets

Financial assets carried at amortized cost

An assessment is made at the reporting 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 at each reporting date. If such evidence exists, the difference between the asset's carrying amount and the present value of estimated future cash flows is calculated and any impairment loss is recognized for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of a provision account, and the amount of the adjustment is included in the consolidated 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 counter-parties as well as their credit ratings, taking into account the current economic climate.

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

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

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

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

### Available for sale equity investments

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

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

## 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 made under operating leases are charged to the consolidated income statement on straight-line basis over the period of the lease.

## m) Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original 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, amortization and impairment, if any. The cost of property and equipment and other fixed assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Building | 20 years |
| Leasehold improvements | 10 years or the lease period, whichever is shorter |
| Equipment and furniture | 4 to 6 years |
| Computer hardware and software | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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) Financial Liabilities

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

## p) Investment Services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in the available-for-sale investment and fee income earned from managing these funds is disclosed under related party transactions.
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly, are not included in the Bank's consolidated financial statements.

## 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.

## r) Employee Share Plan

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

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

## s) End of Service Benefits

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

## 4. Cash and Balances with SAMA

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

| | Note | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|---|
| Cash in hand | | 1,153,106 | 1,115,535 |
| Statutory deposit | 4.1 | 1,544,269 | 1,180,808 |
| Other balances | | 234,994 | 3,538,359 |
| Total | | 2,932,369 | 5,834,702 |

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

## 5. Due from Banks and Other Financial Institutions, Net

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

| | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|
| Current accounts | 401,961 | 1,302,182 |
| | | |
| Commodity murabaha placements | 6,269,768 | 5,248,447 |
| Provision for impairment on commodity murabaha | (96,263) | (96,263) |
| | 6,173,505 | 5,152,184 |
| Total | 6,575,466 | 6,454,366 |

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

| | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|
| Balance at beginning of the year | 96,263 | 96,262 |
| Provided during the year | - | 1 |
| Balance at end of the year | 96,263 | 96,263 |

## 6. Investments, Net

Investments comprise the following as at December 31:

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

| | 2011 | | |
|---|---|---|---|
| | Quoted | Unquoted | Total |
| Available-for-sale investments | SAR' 000 | SAR' 000 | SAR' 000 |
| Equities | 122,296 | 150,000 | 272,296 |
| Mutual fund | 20,791 | - | 20,791 |
| Sukuk | 58,000 | - | 58,000 |
| | 201,087 | 150,000 | 351,087 |
| Held at amortized cost | | | |
| Commodity Murabaha with SAMA | - | 600,371 | 600,371 |
| | 201,087 | 750,371 | 951,458 |

## a) Movement in other reserves is summarized as follows

| | 2012<br>SAR' 000 | 2011<br>SAR' 000 |
|---|---|---|
| Balance at beginning of the year | 6,236 | 23,611 |
| Net changes in fair value | 14,055 | (9,979) |
| Net amount transferred to consolidated income statement | (5,225) | (7,396) |
| Balance at the end of the year | 15,066 | 6,236 |

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

| | 2012<br>SAR' 000 | 2011<br>SAR' 000 |
|---|---|---|
| Corporate | 327,308 | 330,296 |
| Banks and other financial institutions | 109,413 | 20,791 |
| SAMA | 1,100,539 | 600,371 |
| Total | 1,537,260 | 951,458 |

c) Equities reported under available-for-sale investments in the stock market include unquoted shares for SAR 150 million (2011: 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:

| 2012 | Performing | Non performing | Total | Provisions | Net |
|---|---|---|---|---|---|
| | SAR' 000 | SAR' 000 | SAR' 000 | SAR' 000 | SAR' 000 |
| Bei ajel | 8,915,846 | 597,065 | 9,512,911 | (780,261) | 8,732,650 |
| Installment sales | 7,680,952 | 69,323 | 7,750,275 | (209,783) | 7,540,492 |
| Ijarah | 529,348 | - | 529,348 | - | 529,348 |
| Musharakah | 1,471,247 | 85,914 | 1,557,161 | (103,975) | 1,453,186 |
| Total | 18,597,393 | 752,302 | 19,349,695 | (1,094,019) | 18,255,676 |
| | | | | | |
| 2011 | | | | | |
| Bei ajel | 7,037,464 | 601,311 | 7,638,775 | (706,794) | 6,931,981 |
| Installment sales | 5,597,065 | 44,847 | 5,641,912 | (127,032) | 5,514,880 |
| Ijarah | 352,968 | - | 352,968 | - | 352,968 |
| Musharakah | 991,113 | 39,057 | 1,030,170 | (50,253) | 979,917 |
| Total | 13,978,610 | 685,215 | 14,663,825 | (884,079) | 13,779,746 |

## a) Impairment Charge for Financing

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Balance at beginning of the year | 884,079 | 633,029 |
| Provided during the year | 275,220 | 252,242 |
| Amounts written off during the year | (65,280) | (1,192) |
| Balance at end of the year | 1,094,019 | 884,079 |

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

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

2011

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

## 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 as follows:.

| Grades | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Excellent | 2,350,871 | 579,160 |
| Good | 9,177,661 | 7,853,733 |
| Satisfactory | 1,804,705 | 1,642,804 |
| Fair risk | 4,455,694 | 3,340,982 |
| Watch list | 518,998 | 432,007 |
| Total | 18,307,929 | 13,848,686 |

### 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:

2012

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

2011

| | Bei Ajel | Installment sales SAR' 000 | Ijarah SAR' 000 | Musharakah SAR' 000 | Total SAR' 000 |
|---|---|---|---|---|---|
| Individually impaired loan | 601,311 | 44,847 | - | 39,057 | 685,215 |
| Fair value of collateral | 494,964 | 2,396 | - | 80,309 | 577,669 |

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

2012

| | Bei Ajel SAR' 000 | Installment sales SAR' 000 | Ijarah SAR' 000 | Musharakah SAR' 000 | Total SAR' 000 |
|---|---|---|---|---|---|
| 1 to 30 days | 151,572 | 81,668 | - | 28,871 | 262,111 |
| 31 to 90 days | 918 | 26,435 | - | - | 27,353 |
| 91 to 180 days | - | - | - | - | - |
| Above 180 days | - | - | - | - | - |
| Total | 152,490 | 108,103 | - | 28,871 | 289,464 |
| Fair value of collateral | 257,201 | 16,651 | - | 28,871 | 302,723 |
| 2011 | | | | | |
| 1 to 30 days | 45,281 | 15,809 | - | - | 61,090 |
| 31 to 90 days | 59,843 | 8,991 | - | - | 68,834 |
| 91 to 180 days | - | - | - | - | - |
| Above 180 days | - | - | - | - | - |
| Total | 105,124 | 24,800 | - | - | 129,924 |
| Fair value of collateral | 639,108 | 9,123 | - | - | 648,231 |

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:

2012

| | Bei Ajel SAR' 000 | Musharaka SAR' 000 | Ijarah SAR' 000 | Installment sales SAR' 000 | Total SAR' 000 |
|---|---|---|---|---|---|
| Real estate | 4,210,073 | 168,231 | - | 1,477,069 | 5,855,373 |
| Shares and investment | 1,922,593 | 94,470 | - | - | 2,017,063 |
| Third party guarantee | 2,671,682 | 1,202,107 | - | - | 3,873,789 |
| Unsecured | 708,563 | 92,353 | 529,348 | 6,273,206 | 7,603,470 |
| Total | 9,512,911 | 1,557,161 | 529,348 | 7,750,275 | 19,349,695 |

2011

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

## 8. Property and Equipment, Net

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

| SAR' 000 | Lands and building | Leasehold improvements | Equipment and furniture | Computer hardware and software | Total 2012 | Total 2011 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| January 1 | 12,304 | 401,239 | 187,989 | 314,608 | 916,140 | 856,805 |
| Additions during the year | - | 33,583 | 34,660 | 28,203 | 96,446 | 83,635 |
| disposal / Adjustments | - | - | (7,733) | (51,802) | (59,535) | (24,300) |
| At December 31 | 12,304 | 434,822 | 214,916 | 291,009 | 953,051 | 916,140 |
| | | | | | | |
| Accumulated depreciation and amortization: | | | | | | |
| January 1 | 118 | 175,925 | 139,130 | 272,531 | 587,704 | 514,915 |
| Charge for the year | 353 | 43,839 | 23,175 | 20,653 | 88,020 | 88,689 |
| disposal / Adjustments | - | - | (7,659) | (51,239) | (58,898) | (15,900) |
| At December 31 | 471 | 219,764 | 154,646 | 241,945 | 616,826 | 587,704 |
| | | | | | | |
| Net book value: | | | | | | |
| At December 31, 2012 | 11,833 | 215,058 | 60,270 | 49,064 | 336,225 | |
| At December 31, 2011 | 12,186 | 225,314 | 48,859 | 42,077 | | 328,436 |

Leasehold improvements include work-in-progress as at December 31, 2012 amounting to SAR 23 Million (2011: SAR 11 million).

## 9. Other Assets

Other assets comprise the following as at December 31:

| | Note | 2012 SAR' 000 | 2011 SAR' 000 |
|---|---|---|---|
| Prepaid rental expenses | | 19,362 | 15,613 |
| Advances to suppliers | | 22,572 | 18,712 |
| Management fee receivable | | 47,728 | 33,359 |
| Other | 9.1 | 50,843 | 310,777 |
| Total | | 140,505 | 378,461 |

9.1 Included in "Other" for 2011 is an amount of SAR 280 million representing cost of land purchased by the Bank which was sold in the first quarter 2012 (Note 24).

## 10. Due to Banks and Other Financial Institutions

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Current accounts | 76,851 | 9,256 |
| Time investments | 493,979 | 412,581 |
| Total | 570,830 | 421,837 |

## 11. Customers' Deposits

Customer deposits comprise the following as of December 31:

| | | 2012 | 2011 |
|---|---|---|---|
| | Notes | SAR' 000 | SAR' 000 |
| Current accounts | 11.1 | 18,472,482 | 18,582,336 |
| AlBilad accounts | | 3,121,571 | 2,929,251 |
| Customers' time investments | | 1,670,237 | 1,192,169 |
| Other deposits | 11.2 | 477,334 | 334,178 |
| Total | | 23,741,624 | 23,037,934 |

11.1 Current accounts include foreign currency deposits of SAR 346 million (2011: SAR 1,257 million).

11.2 Other deposits include Current accounts on behalf of the Bank's mutual funds of SAR 7 million (2011: SAR 5 million) and margins held for irrevocable commitments of SAR 470 million (2011: SAR 329 million).

## 12. Other Liabilities

Other liabilities comprise the following as of December 31:

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Accounts payable | 756,576 | 516,255 |
| Accrued expenses - Staff | 142,743 | 100,510 |
| Accrued operating expenses | 60,045 | 89,630 |
| Other | 134,867 | 144,753 |
| Total | 1,094,231 | 851,148 |

## 13. Share Capital

The authorized issued and fully paid capital of the Bank consists of 300 million shares of SAR 10 each. (2011: 300 million shares of SAR 10 each)

## 14. Statutory Reserve

In accordance with Article 13 of the Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 235 million (2011: SAR 82 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

## 15. Other Reserve

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

## 16. Commitments and Contingencies

### a) Legal Proceedings

There were legal proceedings as at December 31, 2012, outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers

### b) Capital Commitments

As at December 31, 2012, the Bank had capital commitments of SAR 68 million (2011: SAR 88 million) relating to leasehold improvements on leased branches and ATM.

### c) Credit Related Commitments and Contingencies

Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing.

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

Cash requirements under letters of credit and guarantee are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

| 2012 (SAR' 000) | Less than 3 months | From 3 months to 12 months | More than one year | Total |
|---|---|---|---|---|
| Letters of credit | 454,562 | 649,838 | 59,968 | 1,164,368 |
| Letters of guarantee | 347,038 | 1,086,340 | 937,927 | 2,371,305 |
| Acceptances | 209,294 | 53,099 | - | 262,393 |
| Total | 1,010,894 | 1,789,277 | 997,895 | 3,798,066 |

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

The outstanding unused portion of commitments, as of December 31, 2012, which can be revoked at any time by the Bank amounts to SAR 4 billion (2011: SAR 3.2 billion).

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Corporate | 3,586,654 | 2,613,626 |
| Financial institutions (Guarantees) | 164,066 | 110,108 |
| Other | 47,346 | 21,660 |
| Total | 3,798,066 | 2,745,394 |

## d) Operating Lease Commitments

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Less than one year | 94,559 | 64,731 |
| One year to five years | 234,207 | 172,069 |
| Over five years | 140,383 | 61,562 |
| Total | 469,149 | 298,362 |

## e) Restricted Investment Accounts

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Under Wakalah arrangement | - | 1,189,256 |

The Bank accepts restricted investment from customers under Wakalah arrangements. These investments are invested by the

Bank in commodity Murabaha with banks and other financial institutions. Management fee are charged on these accounts.

### f) Zakat

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

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

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

Zakat payable by the shareholders for the year ended December 31, 2012 amounted to SAR 25 million (2011: SAR 10 million). Zakat will be paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

Zakat base for the years 2009, 2010 and 2011 have been calculated on basis consistent with prior years.

## 17. Income from Investing and Financing Assets

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Held at amortized cost | | |
| Investments | | |
| Commodity murabaha with SAMA | 1,834 | 3,985 |
| Commodity murabaha with banks and financial institutions | 49,821 | 23,457 |
| Profit From Sukuk Investments | 1,094 | 206 |
| Financing | | |
| Bei ajel | 392,994 | 320,470 |
| Installment sales | 358,306 | 331,369 |
| Ijarah | 6,326 | 2,943 |
| Mushrakah | 50,178 | 45,504 |
| Total | 860,553 | 727,934 |

## 18. Return on Deposits and Financial Liabilites

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| AlBilad accounts | 5,892 | 3,521 |
| Time investments from customers and financial institutions | 15,147 | 21,427 |
| Total | 21,039 | 24,948 |

## 19. Fees and Commission Income, Net

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Fees and commission income | | |
| ATM and point of sale fee income | 97,904 | 82,044 |
| Brokerage commission | 44,726 | 29,161 |
| Letter of credit and guarantee fee | 40,369 | 15,574 |
| Remittance fee | 424,323 | 325,829 |
| Management fee (mutual fund and others) | 31,635 | 22,379 |
| Facilities management fee | 47,595 | 67,058 |
| Documentation fee | 33,592 | 20,138 |
| Others | 13,273 | 5,527 |
| Total fees income | 733,417 | 567,710 |
| Fees and commission expenses | | |
| ATM and point of sale fee expenses | 76,647 | 101,270 |
| Fee paid to brokers | 3,481 | 2,840 |
| Others | 7,989 | 5,304 |
| Total fees expenses | 88,117 | 109,414 |
| Fees and commission income, net | 645,300 | 458,296 |

## 20. Dividend Income

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Available-for-sale investments | 11,717 | 10,884 |

## 21. Gains on Non-Trading Investments, Net

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Available-for-sale investments | 5,225 | 7,396 |

## 22. Other Operating Income

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Gains on sale of property and equipment | 1,356 | 2,582 |
| Others | 264 | 1,928 |
| Total | 1,620 | 4,510 |

## 23. Salaries and Employee Related Benefits

| | Number of Employees | | Fixed compensation SAR 000 | | Variable Compensation Paid | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Cash SAR' 000 | | Shares SAR' 000 | | Total SAR' 000 | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Senior executives requiring SAMA no objection | 7 | 8 | 13,349 | 10,773 | 4,675 | 2,938 | - | - | 4,675 | 2,938 |
| Employees engaged in risk taking activities | 1,869 | 1,595 | 198,811 | 160,775 | 21,743 | 7,248 | - | - | 21,743 | 7,248 |
| Employees engaged in control functions | 138 | 116 | 34,656 | 29,037 | 2,458 | 1,840 | - | - | 2,458 | 1,840 |
| Other employees | 526 | 528 | 96,032 | 86,679 | 8,427 | 4,872 | - | - | 8,427 | 4,872 |
| Outsourced employees | 300 | 211 | 28,506 | 27,180 | - | - | - | - | - | - |
| Total | 2,840 | 2,458 | 371,354 | 314,444 | 37,303 | 16,898 | - | - | 37,303 | 16,898 |
| Variable Compensation accrued | | | 61,959 | 25,039 | | | | | | |
| | | | | | | | | | | |
| Other employee related benefits | | | 84,044 | 109,494 | | | | | | |
| Total Salaries and employee related expenses | | | 517,357 | 448,977 | | | | | | |

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 – Chairman
2. Mr. Nasser bin Mohammed AlSubaie – Member
3. Mr. Khaled bin Abdulaziz AlMograirn – Member
4. Mr. Mohammed bin Abdullah AlGwaiz – Member
5. Mr. Khaled bin Saleh AlHathaal – Member

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

## 24. Non- Operating Income

During the year the Bank sold a parcel of land included under other assets at carrying value of SAR 280 million. The Bank acquired the land in 2007 for its own use. The land was sold for a total consideration of SAR 653 million.

The Bank issued Bei Ajel facility for the amount of SAR 503 million to Company acquiring the land (the"Company"), which had fully utilized the issued facility. Based on the facility terms, the financed amount is repayable in two installments on February 2013 and August 2013. As a result of the sale, the Bank recognized non-operating income of SAR 373 million, with income per share amounting to SAR 1.2 per share.

The financing is secured by personal guarantee of borrowing Company's shareholders and also the title of land, which has been retained by the bank pending the collection of the full facility.

## 25. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2012 and 2011 are calculated by dividing the net income for the year by 300 million shares outstanding as of December 31, 2012 and 2011.

## 26. Cash and Cash Equivalents

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| Cash | 1,153,106 | 1,115,535 |
| Due from banks and other financial institutions (maturing within ninety days from acquisition) | 3,688,561 | 4,353,930 |
| Balances with SAMA (excluding statutory deposit) | 234,994 | 3,538,359 |
| Total | 5,076,661 | 9,007,824 |

## 27. Segmental Information

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

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

**Retail Banking:** Services and products to individuals, including deposits, financing, remittances and currency exchange.

**Corporate Banking:** Services and products including deposits, financing and trade services to corporate and commercial customers.

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

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

**Other:** All other support functions.

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

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

| SAR' 000 | | | 2012 | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Corporate Banking | Treasury | Investment banking and brokerage | Other | Total |
| Total assets | 9,780,498 | 11,572,550 | 7,567,538 | 763 | 856,152 | 29,777,501 |
| Capital expenditures | 35,748 | 192 | 66 | 2,155 | 58,285 | 96,446 |
| Total liabilities | 16,498,105 | 7,320,370 | 493,979 | 85,762 | 1,008,469 | 25,406,685 |
| Net income from investing and financing assets | 343,785 | 444,297 | 51,432 | - | - | 839,514 |
| Fee, commission and other income, net | 657,136 | 55,203 | 73,823 | 63,116 | 48,588 | 897,866 |
| Total operating income | 1,000,921 | 499,500 | 125,255 | 63,116 | 48,588 | 1,737,380 |
| Impairment charge for financing ,net | 82,751 | 192,469 | - | - | - | 275,220 |
| Depreciation and amortization | 75,049 | 11,590 | 1,110 | 271 | - | 88,020 |
| Total operating expenses | 733,001 | 370,094 | 32,350 | 33,298 | - | 1,168,743 |
| Net operating income | 267,920 | 129,406 | 92,905 | 29,818 | 48,588 | 568,637 |
| Non-operating income | - | - | - | - | 373,167 | 373,167 |
| Net income for the year | 267,920 | 129,406 | 92,905 | 29,818 | 421,755 | 941,804 |

| SAR' 000 | | | 2011 | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Corporate Banking | Treasury | Investment banking and brokerage | Other | Total |
| Total assets | 7,507,819 | 9,832,503 | 9,322,791 | 791 | 1,063,265 | |
| Capital expenditures | 54,149 | 69 | 6 | 188 | 29,223 | 83,635 |
| Total liabilities | 14,094,315 | 8,952,875 | 412,581 | 3,892 | 847,256 | |
| Net income from investing and financing assets | 350,844 | 321,881 | 18,581 | - | 11,680 | 702,986 |
| Fee, commission and other income, net | 444,918 | 86,274 | 74,610 | 42,940 | 21,780 | 670,522 |
| Total operating income | 795,762 | 408,155 | 93,191 | 42,940 | 33,460 | 1,373,508 |
| Impairment charge for financing ,net | 81,509 | 170,733 | - | - | - | 252,242 |
| Depreciation and amortization | 77,181 | 10,172 | 965 | 371 | - | 88,689 |
| Total operating expenses | 650,848 | 334,907 | 32,259 | 25,869 | - | 1,043,883 |
| Net income for the year | 144,914 | 73,248 | 60,932 | 17,071 | 33,460 | 329,625 |

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

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

| 2011 | | | | |
|---|---|---|---|---|
| SAR' 000 | | | | |
| Total asset | 5,514,880 | 8,264,866 | 7,054,737 | 20,834,483 |
| Commitments and Contingencies | - | 1,422,325 | - | 1,422,325 |

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

## 28. 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.

## 29. 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 investments by counter-party is provided in note 6(b). For details of the composition of financing refer to note 7. For commitments and contingencies refer to note 16. The information on the Bank's maximum credit and credit risk exposure by operating business segment and the total bank level is given in note 27(b).

## a) Geographical Concentration

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

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

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

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:

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

| 2011 | | | SAR' 000 | | | |
|---|---|---|---|---|---|---|
| Non- performing financing assets | 685,215 | - | - | - | - | 685,215 |
| Provision for impairment | | | | | | |
| On financing assets | 884,079 | - | - | - | - | 884,079 |
| Non- performing other financial assets | - | 96,263 | - | - | - | 96,263 |
| Provision for impairment on other financial assets | - | 96,263 | - | - | - | 96,263 |

## 30. 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

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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Saudi Riyal SAR ' 000 | Foreign Currency SAR ' 000 | Saudi Riyal SAR ' 000 | Foreign Currency SAR ' 000 |
| Assets | | | | |
| Cash and balances with SAMA | 2,806,827 | 125,542 | 5,766,435 | 68,267 |
| Due from banks and other financial institutions, net | 5,749,811 | 825,655 | 4,516,649 | 1,937,717 |
| Investments, net | 1,537,260 | - | 951,458 | - |
| Financing, net | 17,932,415 | 323,261 | 13,426,778 | 352,968 |
| Property and equipment, net | 336,225 | - | 328,436 | - |
| Other assets | 140,411 | 94 | 378,305 | 156 |
| Total | 28,502,949 | 1,274,552 | 25,368,061 | 2,359,108 |
| Liabilities and equity | | | | |
| Due to banks and other financial institutions | 175,266 | 395,564 | 4,150 | 417,687 |
| Customer deposits | 23,320,237 | 421,387 | 21,741,182 | 1,296,752 |
| Other liabilities | 1,082,707 | 11,524 | 838,087 | 13,061 |
| Equity | 4,370,816 | - | 3,416,250 | - |
| Total | 28,949,026 | 828,475 | 25,999,669 | 1,727,500 |

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.

## (i) Currency Position

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 Long/(short) | SAR' 000 Long/(short) |
| US Dollar | 381,186 | 513,133 |
| Kuwaiti Dinar | 6,108 | 3,495 |
| Pakistan Rupees | 11,085 | 19,591 |
| Qatar Riyal | 11,336 | 53,861 |
| UAE Dirham | 17,458 | 9,024 |
| Egyptian Pound | 3,617 | 8,478 |
| Others | 15,287 | 24,026 |
| Total | 446,077 | 631,608 |

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

## c) Equity Price Risk

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

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

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| Market Indices | Change in equity price % | Effect in SAR' 000 | Change in equity price % | Effect in SAR' 000 |
| Tadawul | ± 10 | 28,672 | ± 10 | 20,109 |
| Unquoted | ± 2 | 3,000 | ± 2 | 3,000 |

## 31. 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% (2011: 7%) of total demand deposits and 4% (2011: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

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

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

SAR'000

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

SAR'000

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

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

| 2012 | Within 3 Months | 3 months to 1 year | One year to 5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| | SAR'000 | | | | | |
| Financial liabilities | | | | | | |
| Due to banks and other financial institutions | 570,921 | - | - | - | - | 570,921 |
| Customer deposits | 22,423,908 | 1,330,083 | - | - | - | 23,753,991 |
| | | | | | | |
| 2011 | | | | | | |
| Financial liabilities | | | | | | |
| Due to banks and other financial institutions | 421,858 | - | - | - | - | 421,858 |
| Customer deposits | 21,868,824 | 1,177,063 | 1,509 | - | - | 23,047,396 |

## 32. 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.

| 2012 | SAR' 000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets | | | | |
| Financial investments available for sale | 286,721 | - | 150,000 | 436,721 |
| | | | | |
| 2011 | SAR' 000 | | | |
| Financial Assets | | | | |
| Financial investments available for sale | 201,087 | - | 150,000 | 351,087 |

Level 3 investments comprise of unquoted available-for-sale investments that are carried at cost, as their fair value cannot be reliably measured (Note 6 (c)).

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

## 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:

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| a) Directors, and other major shareholders and their affiliates balances: | | |
| Bei ajel | 1,073,879 | 1,601,817 |
| Musharaka | 45,415 | 34,663 |
| Commitments and contingencies | 21,441 | 67,965 |
| Current accounts | 23,598 | 20,726 |
| Al Bilad account | 651 | 1,583 |

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

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| b) Bank's Mutual funds: | | |
| These are the outstanding balances with Bank's mutual funds as of December 31: | | |
| Customer deposits | 7,286 | 5,274 |

## 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:

| | 2012 | 2011 |
|---|---|---|
| | SAR' 000 | SAR' 000 |
| | | |
| Income from financing | 62,639 | 21,233 |
| Income from commitments and contingencies | 197 | 743 |
| Management fees (AlBilad mutual funds) | 13,082 | 11,043 |
| Board of Directors' remunerations | 3,729 | 4,180 |
| Compensations, remuneration and bonuses and end of service benefits to executive management members | 41,963 | 37,304 |

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) | |
|---|---|---|
| | 2012 | 2011 |
| | SAR' 000 | SAR' 000 |
| Credit Risk RWA | 22,005,550 | 17,182,708 |
| Operational Risk RWA | 2,629,094 | 2,167,026 |
| Market Risk RWA | 451,388 | 631,838 |
| Total Pillar-I RWA | 25,086,032 | 19,981,572 |
| Tier I Capital | 3,429,012 | 3,086,625 |
| Tier II Capital | 1,216,873 | 572,528 |
| Total Tier I & II Capital | 4,645,885 | 3,659,153 |
| Capital Adequacy Ratio % | | |
| Tier I ratio | 13.67% | 15.45% |
| Tier I + Tier II ratio | 18.52% | 18.31% |

## 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 Six mutual funds(2011:five mutual funds) with assets totaling SAR 979 million (2011: SAR 795 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) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.

## 37. Issued IFRS’ But Not Yet Effective
## i. New or revised IAS/IFRS

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank’s accounting years beginning after 1 January 2013 and is currently assessing their impact.

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

**b. IFRS 10 Consolidated Financial Statements:** IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and is applicable from 1 January 2013. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

**c. IFRS 11 Joint Arrangements:** IFRS 11 replaces IAS 31 Interests in Joint Ventures and is applicable from 1 January 2013. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

**d. IFRS 12 Disclosure of Interests in Other Entities:** Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows and is applicable from 1 January 2013.

**e. IFRS 13 Fair Value Measurements:** Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard and is applicable from 1 January 2013. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value and is applicable from 1 January 2013.

## ii. Amendments to IAS/IFRS

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

**a) Amendments to IAS 1 Presentation of Financial Statements:** amends IAS 1 to revise the way other comprehensive income is presented and is applicable from 1 January 2013.

**b) Amendments to IFRS 7 Financial Instruments:** Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32 and is applicable from 1 January 2013.

**c) Amendments to IAS 32 Financial Instruments Presentation:** Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

**d) IAS 19 Employee Benefits – Amendments:** The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

**e) IAS 27 Separate Financial Statements (2011):** revised version of IAS 27 applicable from 1 January 2013 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

**f) IAS 28 Investments in Associates and Joint Ventures (2011):** revised version of IAS 28 applicable from 1 January 2013. The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

**g) The IASB has Published Annual Improvements to IFRSs:** 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards and interpretations with applicability from 1 January 2013:

- IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;
- IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;

- IAS 16 – Property, plant and equipment: Classification of servicing equipment;
- IAS 32 – Financial instruments presentation: Income tax consequences of distributions
- IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

**h) Investments Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) :** The IASB published the above amendments applicable from 1 January 2014 with a mandatory consolidation exception for qualifying investment entity that is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss. The only exception would be subsidiaries that are considered an extension of the investment entity's investing activities.

## 38. Employee Share Plan (ESP)

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

| | 2012 | 2011 |
|---|---|---|
| Grant date | 12 May 2012 | 17th December 2011 |
| Maturity Date | 1 January 2015 | 1st January 2014 |
| Number of share offered on the grant date | 319,624 | 159,000 |
| Share price on the grant date (SAR) | 28.20 | 19.60 |
| Value of shares offered on grant date (SAR' 000) | 9,013 | 3,116 |
| Vesting period | 3 years | 3 years |
| Vesting condition | Employees to remain in service | Employees to remain in service |
| Method of settlement | Equity | Equity |

| The movement in the number of shares is as follows | 2012 | 2011 |
|---|---|---|
| Beginning of the year | 159,000 | - |
| Granted during the year | 319,624 | 159,000 |
| Forfeited | 41,100 | - |
| Exercised | - | - |
| End of the year | 437,524 | 159,000 |

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

## 39. Comparative Figures

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

## 40. Approval of the Financial Statements

These consolidated financial statements were approved by the Bank's Board of Directors on 1 Rabi-Alakher 1434H (corresponding to 11 February, 2013).

# Basel II Quantitative Disclosures

## AS AT 31 December 2012
## SAR'000

TABLE 2: CAPITAL STRUCTURE

| Components of capital | Amount |
|---|---|
| Core capital - Tier I: | |
| Eligible paid-up share capital | 3,000,000 |
| Eligible reserves | 112,554 |
| Legal reserves | 134,653 |
| Other reserves | (22,099) |
| Retained earnings | 316,458 |
| Total Tier I | 3,429,012 |
| Qualifying general provisions | 275,069 |
| Interim profits | 941,804 |
| Total Tier II | 1,216,873 |
| Total eligible capital | 4,645,885 |

## AS AT 31 December 2012
## SAR'000

TABLE 3: CAPITAL ADEQUACY

| Portfolios | Amount of exposures | Capital requirements |
|---|---|---|
| Sovereigns and central banks: | | |
| SAMA and Saudi Government | 1,639,564 | - |
| Others | - | - |
| Multilateral Development Banks (MDBs) | - | - |
| Public Sector Entities (PSEs) | - | - |
| Banks and securities firms | 6,173,506 | 165,762 |
| Corporates | 7,641,065 | 611,285 |
| Retail non-mortgages | 6,206,341 | 372,380 |
| Small Business Facilities Enterprises (SBFE's) | 31,604 | 1,896 |
| Mortgages | | - |
| Residential | 1,474,611 | 117,969 |
| Commercial | 3,301,772 | 264,142 |
| Securitized assets | - | - |
| Equity | 1,479,260 | 30,298 |
| Past Due | 57,804 | 4,624 |
| Others | 2,171,494 | 49,314 |
| Total | 30,177,021 | 1,617,670 |

## AS AT 31 December 2012
## SAR'000

TABLE 3: CAPITAL ADEQUACY

| | Interest rate risk | Equity position risk | Foreign exchange risk | Commodity risk | Total |
|---|---|---|---|---|---|
| Standardised approach | - | - | 36,111 | - | 36,111 |

TABLE 3: CAPITAL ADEQUACY

| Capital Requirements for Operational Risk* (Table 3, (e)) | |
|---|---|
| Particulars | Capital requirement |
| Basic indicator approach; | 210,328 |

TABLE 3: CAPITAL ADEQUACY

| Particulars | Total capital ratio | Tier 1 capital ratio |
|---|---|---|
| | % | |
| Top consolidated level | 18.52 | 13.67 |

## AS AT 31 December 2012
## 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 | 1,639,564 | 1,871,297 |
| Others | - | - |
| Multilateral Development Banks (MDBs) | - | - |
| Public Sector Entities (PSEs) | - | - |
| Banks and securities firms | 6,295,669 | 7,414,884 |
| Corporates | 9,342,754 | 8,528,462 |
| Retail non-mortgages | 6,206,341 | 5,434,283 |
| Small Business Facilities Enterprises (SBFE's) | 61,642 | 67,833 |
| Mortgages | | |
| Residential | 1,474,611 | 1,465,633 |
| Commercial | 3,301,772 | 3,227,677 |
| Securitized assets | - | - |
| Equity | 1,479,260 | 956,631 |
| Past Due | 57,804 | 37,552 |
| Others | 2,171,494 | 2,352,141 |
| Total | 32,030,911 | 31,356,393 |

## AS AT 31 December 2012
## SAR'000

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

| Portfolios | Geographic area | | | | | | |
|---|---|---|---|---|---|---|---|
| | Saudi Arabia | Other GCC & Middle East | Europe | North America | South East Asia | Others countries | Total |
| Sovereigns and central banks: | | | | | | | |
| SAMA and Saudi Government | 1,639,564 | - | - | - | - | - | 1,639,564 |
| Others | - | - | - | - | - | - | - |
| Multilateral Development Banks (MDBs) | - | - | - | - | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - |
| Banks and securities firms | 4,242,588 | 2,053,081 | - | - | - | - | 6,295,669 |
| Corporates | 9,342,754 | - | - | - | - | - | 9,342,754 |
| Retail non-mortgages | 6,206,341 | - | - | - | - | - | 6,206,341 |
| Small Business Facilities Enterprises (SBFE's) | 61,642 | - | - | - | - | - | 61,642 |
| Mortgages | | | | | | | |
| Residential | 1,474,611 | - | - | - | - | - | 1,474,611 |
| Commercial | 3,301,772 | - | - | - | - | - | 3,301,772 |
| Securitized assets | - | - | - | - | - | - | - |
| Equity | 1,479,260 | - | - | - | - | - | 1,479,260 |
| Past Due | 57,804 | - | - | - | - | - | 57,804 |
| Others | 1,643,991 | 76,289 | 277,394 | 124,577 | 21,330 | 27,913 | 2,171,494 |
| Total | 29,450,327 | 2,129,370 | 277,394 | 124,577 | 21,330 | 27,913 | 32,030,911 |

# AS AT 31 December 2012
# SAR'000

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

| | Industry sector | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolios | Government and quasi government | Banks and other financial institutions | Agriculture and fishing | Manu-facturing | Mining and quarrying | Electricity, water, gas and health services | Building and construction | Commerce | Transportation and communication | Services | Consumer loans and credit cards | Others | Total |
| Sovereigns and central banks: | | | | | | | | | | | | | |
| SAMA and Saudi Government | 1,639,564 | - | - | - | - | - | - | - | - | - | - | - | 1,639,564 |
| Others | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Multilateral Development Banks (MDBs) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Banks and securities firms | - | 6,295,669 | - | - | - | - | - | - | - | - | - | - | 6,295,669 |
| Corporates | - | - | 710,897 | 1,939,488 | - | - | 1,452,435 | 2,422,929 | 3,046 | 1,118,778 | - | 1,695,181 | 9,342,754 |
| Retail non-mortgages | - | - | - | - | - | - | - | - | - | - | 6,206,341 | - | 6,206,341 |
| Small Business Facilities Enterprises (SBFE's) | - | - | 225 | 2,866 | - | - | 12,333 | 27,777 | - | 7,578 | - | 10,863 | 61,642 |
| Mortgages | - | | | | | | | | | | | | |
| Residential | - | - | - | - | - | - | - | - | - | - | 1,474,611 | - | 1,474,611 |
| Commercial | - | - | - | - | - | - | 3,301,772 | - | - | - | - | - | 3,301,772 |
| Securitized assets | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity | 1,100,539 | 27,627 | 19,203 | 45,155 | 21,735 | - | 4,359 | - | 26,776 | 14,192 | | 219,674 | 1,479,260 |
| Past Due | - | - | - | - | - | - | 9,160 | 14,146 | - | 1,265 | 20,737 | 12,497 | 57,804 |
| Others | - | - | - | - | - | - | - | - | - | - | - | 2,171,494 | 2,171,494 |
| Total | 2,740,103 | 6,323,296 | 730,325 | 1,987,509 | 21,735 | - | 4,780,059 | 2,464,851 | 29,822 | ,141,812 | 7,701,689 | 4,109,710 | 32,030,911 |

# AS AT 31 December 2012
# SAR'000

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

| Portfolios | Maturity breakdown | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Less than 8 days | 8-30 days | 30-90 days | 90-180 days | 180-360 days | 1-3 years | 3-5 years | No Maturity | Over 5 years | Total |
| Sovereigns and central banks: | | | | | | | | | | |
| SAMA and Saudi Government | 1,639,564 | - | - | - | - | - | - | - | - | 1,639,564 |
| Others | - | - | - | - | - | - | - | - | - | - |
| Multilateral Development Banks (MDBs) | - | - | - | - | - | - | - | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - | - | - | - |
| Banks and securities firms | 340,500 | 3,592,210 | 1,396,009 | 890,456 | 75,143 | 168 | 729 | - | 455 | 6,295,669 |
| Corporates | 248,322 | 832,414 | 1,462,213 | 1,811,966 | 3,260,297 | 1,168,923 | 361,697 | - | 196,922 | 9,342,754 |
| Retail non-mortgages | 113,017 | 26,966 | 280,311 | 420,244 | 814,622 | 3,029,440 | 1,519,685 | - | 2,055 | 6,206,341 |
| Small Business Facilities Enterprises (SBFE's) | 2,016 | 3,287 | 8,005 | 5,962 | 12,694 | 21,172 | 5,366 | - | 3,140 | 61,642 |
| Mortgages | | | | | | | | | | |
| Residential | 12,884 | 1,693 | 22,337 | 33,641 | 70,006 | 300,564 | 297,871 | - | 735,613 | 1,474,611 |
| Commercial | 10,385 | 168,004 | 925,016 | 359,488 | 1,272,401 | 345,175 | 36,154 | - | 185,150 | 3,301,772 |
| Securitized assets | - | - | - | - | - | - | - | - | - | - |
| Equity | 1,100,539 | - | - | - | - | - | - | 378,721 | | 1,479,260 |
| Past Due | - | - | - | - | - | - | - | 57,804 | - | 57,804 |
| Others | 1,694,764 | - | - | - | - | - | - | 476,730 | - | 2,171,494 |
| Total | 5,161,991 | 4,624,573 | 4,093,891 | 3,521,758 | 5,505,163 | 4,865,442 | 2,221,503 | 913,255 | 1,123,335 | 32,030,911 |

## AS AT 31 December 2012
## SAR'000

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

| Impaired Loans, Past Due Loans and Allowances (Table 4, (f)) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Industry sector | Impaired loans | Past Due (>90 days), not impaired | Defaulted | Aging of Past Due Loans (days) | | | | Specific allowances | | | General allowances |
| | | | | Less than 90 | 90-180 | 180-360 | Over 360 | Charges during the period | Charge-offs during the period | Balance at the end of the period | |
| Government and quasi government | - | - | - | - | - | - | - | - | - | - | - |
| Banks and other financial institutions | - | - | - | - | - | - | - | - | - | - | - |
| Agriculture and fishing | - | - | - | - | - | - | - | (1,410) | - | - | 15,346 |
| Manufacturing | 308,360 | - | 308,360 | - | - | 2,814 | 305,546 | (2,359) | (49,895) | 308,363 | 37,480 |
| Mining and quarrying | - | - | - | | | | | - | - | - | - |
| Electricity, water, gas and health services | - | - | - | - | - | - | - | - | - | - | - |
| Building and construction | 35,213 | - | 35,213 | 47,456 | 1,021 | 34,193 | - | 24,522 | (4,050) | 26,054 | 84,568 |
| Commerce | 94,220 | - | 94,220 | 918 | - | 53,341 | 40,880 | 39,721 | (11,334) | 80,074 | 44,000 |
| Transportation and communication | - | - | - | - | - | - | - | - | | - | 43 |
| Services | 54,394 | - | 54,394 | 514 | 1,780 | - | 52,615 | (223) | - | 53,130 | 19,098 |
| Consumer loans and credit cards | 69,323 | - | 69,323 | 108,103 | 14,029 | 20,060 | 35,235 | 20,853 | (2) | 48,586 | 161,197 |
| Others | 190,792 | - | 190,792 | 132,473 | - | 50,000 | 140,792 | 37,500 | - | 178,292 | 37,788 |
| Total | 752,302 | | 752,302 | 289,464 | 16,829 | 160,407 | 575,067 | 118,605 | (65,280) | 694,499 | 399,520 |

## AS AT 31 December 2012
## SAR'000

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 | 752,302 | 289,464 | 16,829 | 160,407 | 575,067 | 694,499 | 399,520 |
| Other GCC & Middle East | - | - | - | - | - | - | - |
| Europe | - | - | - | - | - | - | - |
| North America | - | - | - | - | - | - | - |
| South East Asia | - | - | - | - | - | - | - |
| Others countries | - | - | - | - | - | - | - |
| Total | 752,302 | 289,464 | 16,829 | 160,407 | 575,067 | 694,499 | 399,520 |

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 | 641,175 | 242,903 |
| Amounts set aside (or reversed) during the period | 71,085 | 138,856 |
| Transfers between allowances | (17,761) | 17,761 |
| Balance, end of the year | 694,499 | 399,520 |

# AS AT 31 December 2012
# SAR'000

## 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 | 1,639,564 | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - | - | - | - |
| Multilateral Development Banks (MDBs) | - | - | - | - | - | - | - | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - | - | - | - |
| Banks and securities firms | - | 3,389,223 | | 2,903,633 | | 2,813 | - | - | - | - |
| Corporates | - | - | - | - | - | 9,342,754 | - | - | - | - |
| Retail non-mortgages | - | - | - | - | 6,206,341 | - | - | - | - | - |
| Small Business Facilities Enterprises (SBFE's) | - | - | - | - | 61,642 | - | - | - | - | - |
| Mortgages | - | - | - | - | - | - | - | - | - | - |
| Residential | - | - | - | - | - | 1,474,611 | - | - | - | - |
| Commercial | - | - | - | - | - | 3,301,772 | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - | - | - | - |
| Equity | 1,100,539 | - | - | - | - | 378,721 | - | - | - | - |
| Past Due | - | - | - | - | - | 57,804 | - | - | - | - |
| Others | 1,555,067 | - | - | - | - | 616,427 | - | - | - | - |
| Total | 4,295,170 | 3,389,223 | - | 2,903,633 | 6,267,983 | 15,174,902 | - | - | - | - |

## AS AT 31 December 2012
## SAR'000

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 | 357,051 | - |
| Retail non-mortgages | | - |
| Small Business Facilities Enterprises (SBFE's) | 112,941 | - |
| Mortgages | | |
| Residential | - | - |
| Commercial | - | - |
| Securitized assets | - | - |
| Equity | - | - |
| Others | - | - |
| Total | 469,992 | - |

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 | - | - | 36,111 | - | 36,111 |

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 | 228,721 | 228,721 | |

## AS AT 31 December 2012
## SAR'000

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

| Investments | Publicly traded | Privately held |
|---|---|---|
| Government and quasi government | | - |
| Banks and other financial institutions | 27,627 | - |
| Agriculture and fishing | 19,203 | - |
| Manufacturing | 45,155 | - |
| Mining and quarrying | 21,735 | - |
| Electricity, water, gas and health services | - | - |
| Building and construction | 4,359 | - |
| Commerce | - | - |
| Transportation and communication | 26,776 | - |
| Services | 14,192 | - |
| Others | 69,674 | 150,000 |
| Total | 228,721 | 150,000 |

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) | 8,830 |
| Total latent revaluation gains (losses)* | |
| Unrealized gains (losses) included in Capital | |
| Latent revaluation gains (losses) included in Capital* | |

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

Capital Requirements (Table 13, (f))

| Equity grouping | Capital requirements |
|---|---|
| Government and quasi government | - |
| Banks and other financial institutions | 2,210 |
| Agriculture and fishing | 1,536 |
| Manufacturing | 3,612 |
| Mining and quarrying | 1,739 |
| Electricity, water, gas and health services | - |
| Building and construction | 349 |
| Commerce | - |
| Transportation and communication | 2,142 |
| Services | 1,135 |
| Others | 17,574 |
| Total | 30,297 |

# Basel II Qualitative Disclosures

# Table 1
# Scope of Application

## a) Scope

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

## b) Basis of Consolidation

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

### Entities (within the Group) fully consolidated:

### 1) AlBilad 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 100% of the ordinary share capital of the company

### 2) AlBilad Real Estate Company

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

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

# Table 2
# Capital Structure

Capital of the bank consists of the following instruments:

## 1. Eligible Paid-up Share Capital

Ordinary share capital of the Bank consists of 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. The Board of Directors had recommended to increase the capital from SAR 3 billion to SAR 4 billion by issuing bonus shares to its shareholders in the ratio of one share for every 3 shares. The recommendation is subject to approval of the shareholders in the fourth coming General Meeting.

## 2. Eligible Reserves

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

# Table 3
# Capital Adequacy

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.

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 and internal rating approach for credit risk and market risk and a standardized approach for operational risk. The bank is 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.

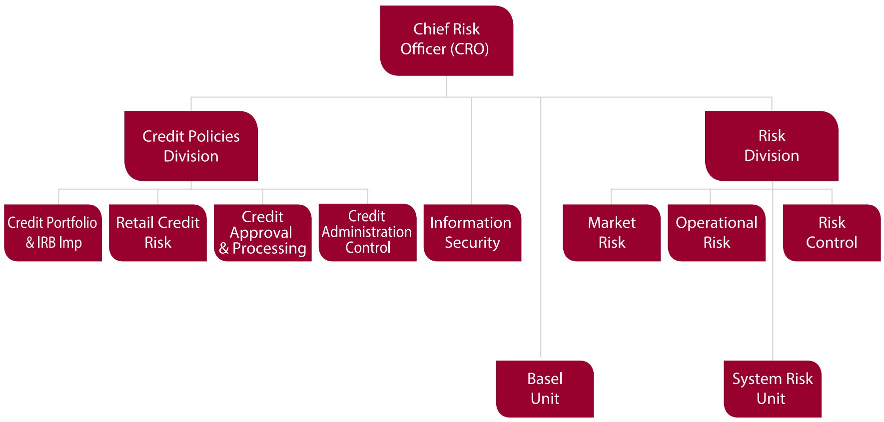
## Risk Exposure & Assessment - General Disclosures

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 deployed 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. in Moody's system.
- The approval of credit limits for counterparties and the management of its individual credit exposures must fit within the Bank's portfolio guidelines and its credit strategies, and each decision also involves a risk-versus-return analysis.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.
- Bank currently assigns credit approval authorities based on dual sign-off system by business and risk up to a certain level, beyond which the proposals are referred to Credit Committee's, Executive Committee and finally Board for approval.

## 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 risk.

- Credit Concentration Risk: is a risk in any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations. Risk concentrations are arguably the single most important cause of major problems in banks.

- Settlement risk is the risk arising in connection with the settlement of payments for trade in securities and other instruments. The risk arises if payments are remitted before the Bank can ascertain that the corresponding payments have been transferred to one of the Bank's accounts.

## Credit Policy

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

The corner stone of the Credit Policy is as under:

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

## Credit Concentration Risk

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

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

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

# Credit Risk – General Disclosures

## Default

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

## Remedial Management

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

## Types of Provisions

## 1. General Provisions

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

Broad collateral types currently used by Bank AlBilad include:
Financial Collateral
- Cash margins
- 'Customer Share' in LC Musharaka transactions
- Cash collateral for extending credit or to protect counterparty default.
- Equities of local listed shares approved by the Shariah Board of the bank for corporate lending and share trading. The list of acceptable equities is periodically reviewed by Credit Committee.

- Local and foreign, Mutual Fund units, comprising of listed companies acceptable under Shariah law.

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

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

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

## Valuation of Collaterals

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

Valuation of collaterals is based on the current market value of the same. Independence of the valuation expert 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 2012

## Market Risk

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

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

Bank AlBilad's market risk capital charge for Pillar I as at the end of December 2012 is approximately SAR 36,111 thousands.

## Profit Margin Risk

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

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

## Foreign Exchange Risk

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

## Policies & Responsibilities

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

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

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

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

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

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

The Bank uses historical simulation to calculate Value-at-risk which assumes normally distributed asset returns. As on 31st December 2012, Bank AlBilad's value at risk is approximately SAR 65,346 thousands. The amount is the maximum that Bank AlBilad would statistically lose at a confidence level of 99%, assuming that the exposure was maintained for 10 working days. Bank AlBilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank AlBilad's losses if positions are exposed to profit margin rate shocks of +/- 200bp.

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

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

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

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

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

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

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

## Liquidity Risk

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

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

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

Liquidity management at Bank 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. In addition to SAMA's liquidity ratio, the bank is also monitoring the Basel 3- Liquidity Coverage Ratio (LCR) as one of the indicator in assessing the potential termed liquidity risk for the bank.

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

Bank 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 any breaches is escalated to  senior management timely.

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

## Managing Short-Term Liquidity Risk

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

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

## Managing Long-Term Liquidity Risk

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

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

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

## Liquidity Scenario Analysis

Bank 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. In addition, the bank is monitoring the Basel 3 – Net Stable Funding Ratio (NSFR) as one of the indicator in assessing the potential structural liquidity risk for the bank.

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

# Table 12
# OPERATIONAL RISK 2012

## Operational Risk

As the Basel Committee defines it, operational risk is the risk of losses resulting from inefficiency, failure in implementation of procedures, personnel, systems, or external factors. To better manage operational risk, the Bank has set forth a specific strategy within a framework of policies and procedures, and aims at achieving a number of corresponding objectives including:

- Supporting the Bank's objectives
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems
- The total independence and continuity of assessment of procedures, monitoring controls, and performance
- Limiting operational losses and solving the causing problems at their roots

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

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

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

## Risk Self-Assessment

Albilad has applied the risk self-assessment governance policy and control elements to identify risks arising from the Bank's products, activities, and operations. Following risk identification, control elements are tested to identify the effectiveness of these elements in mitigating operational risk. The overall assessment of risk and control elements is compared to pre-defined criteria associated with the risk level and boundaries that are acceptable for achieving the targeted returns. Afterwards, the most suitable procedures are taken for enhancing the control environment. The Bank continues to provide employees with training programs that increase awareness of operational risk, thereby, increasing the effectiveness of control elements and identifying existing gaps.

## Determining and Analyzing Operational Losses

The database of losses and Internal Auditing Management reports serve to supplement the risk self-assessment process and control elements and contribute to achieving better results. Albilad's system for data management of operational losses enables the Bank to collect and analyze data and incidents related to these losses – whether they're actual losses, potential losses, or near-miss losses. Risks and control gaps responsible for loss-related incidents are identified. Recommendations for enhancing the associated control elements are presented in order to manage these identified risks and raise the issue to the management-in-charge to help reduce the financial consequences as much as possible.

## Key Risk Indicators

Albilad has adopted a methodology for identifying and analyzing key risk indicators. This helps in identifying the level of risk related to a certain activity or role. Assessment and control are applied throughout the duration of the risk management strategies concerning this specific activity. In addition, weakness are identified and rectified.

The Operational Risk Management methods are directly related to the periodic reporting system that aims to inform all departments and divisions with the operational risks related to their specific activities. The right feedback is sought in order to enhance the required control elements and mitigate these risks. The periodic reports also serves to support Senior Management's prospective decision-making process related to the Bank's activities.