

AL-SEEF FUND
Managed by
ALBILAD INVESTMENT COMPANY
Financial Statements
For the year ended 31 December 2012
together with the
Independent Auditors' Report to Unit Holders



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INDEPENDENT AUDITORS' REPORT

To: **The Unit holders**
Al Seef Fund
Riyadh
Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **Al Seef Fund** ("the Fund") managed by **Al Bilad Investment Company** (the "Fund Manager") which comprise the balance sheet as at 31 December 2012 and the related statements of income, cash flows and changes in net assets attributable to unit holders for the year then ended and the attached notes (1) through (12) which form an integral part of the financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Fund Manager has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Fund's preparation and fair presentation of the 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 Fund's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund Manager, as well as evaluating the overall presentation of the financial statements.

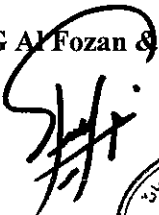
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as at 31 December 2012 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

For KPMG Al Fozan & Al Sadhan


Khalil Ibrahim Al Sedais
License No.: 371



Date: 23 March 2013
Corresponding to: 11 Jumada I 1434H

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
BALANCE SHEET
As at 31 December
(Kuwaiti Dinars)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Cash and cash equivalent	6	397,523	30,291
Investments held for trading	7	2,391,509	2,745,416
Total assets		<u>2,789,032</u>	<u>2,775,707</u>
LIABILITIES			
Accrued expenses		8,140	5,131
Total liabilities		<u>8,140</u>	<u>5,131</u>
Net assets attributable to unit holders		<u>2,780,892</u>	<u>2,770,576</u>
Units in issue (numbers)		<u>5,411,382</u>	<u>5,567,726</u>
Net assets value - per unit (Kuwaiti Dinar)		<u>0.5139</u>	<u>0.4976</u>

The accompanying notes 1 to 12 form an integral part of these financial statement.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
STATEMENT OF INCOME
For the year ended 31 December
(Kuwaiti Dinar)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
INCOME			
Income on Commodity Murabaha		2,242	--
Trading gain /(loss), net			
- Realised loss on investments		(13,766)	(479,552)
- Unrealised gain on investments		<u>137,488</u>	<u>79,740</u>
		<u>125,964</u>	<u>(399,812)</u>
EXPENSES			
Management fees	5	31,053	8,017
Other expenses	5	<u>6,472</u>	<u>12,691</u>
		<u>37,525</u>	<u>20,708</u>
Net income / (loss) for the year		<u><u>88,439</u></u>	<u><u>(420,520)</u></u>

The accompanying notes 1 to 12 form an integral part of these financial statements.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
STATEMENT OF CASH FLOWS
For the year ended 31 December
(Kuwaiti Dinars)

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Net income / (loss) for the year	88,439	(420,520)
<i>Adjustment to reconcile net income / (loss) to net cash from operating activities:</i>		
Unrealised gain on investments	<u>(137,488)</u>	<u>(79,740)</u>
	(49,049)	(500,260)
Changes in operating assets and liabilities:		
Investments held for trading	491,395	1,027,354
Accrued expenses	<u>3,009</u>	<u>(15,160)</u>
Net cash from operating activities	<u>445,355</u>	<u>511,934</u>
INVESTING ACTIVITIES		
Purchase of held-to-maturity investments	(2,690,000)	--
Proceeds from maturity of held-to-maturity investments	<u>2,690,000</u>	<u>--</u>
Net cash (used in) / from operating activities	<u>--</u>	<u>--</u>
FINANCING ACTIVITIES		
Proceeds from issuance of units	4,822	10,226
Payment towards units redeemed	<u>(82,945)</u>	<u>(471,059)</u>
Net cash used in financing activities	<u>(78,123)</u>	<u>(460,833)</u>
Net increase in cash and cash equivalent	367,232	51,101
Cash and cash equivalent at beginning of the year	<u>30,291</u>	<u>(20,810)</u>
Cash and cash equivalent at end of the year	<u>397,523</u>	<u>30,291</u>

The accompanying notes 1 to 12 form an integral part of these financial statements.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
For the year ended 31 December
(Kuwaiti Dinars)

	<u>2012</u>	<u>2011</u>
Net assets value at beginning of the year	2,770,576	3,651,929
Net income / (loss) for the year	88,439	(420,520)
Changes from unit transactions		
Proceeds from issuance of units	4,822	10,226
Payment towards units redeemed	(82,945)	(471,059)
Net change from unit transactions	(78,123)	(460,833)
Net assets value at end of the year	2,780,892	2,770,576

UNIT TRANSACTIONS

Units at beginning of the year	5,567,726	6,427,173
Units issued	9,773	18,413
Units redeemed	(166,117)	(877,860)
Net change in units	(156,344)	(859,447)
Units at end of the year	5,411,382	5,567,726

The accompanying notes 1 to 12 form an integral part of these financial statements.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1. THE FUND AND ITS ACTIVITIES

Al Seef Fund is an open-ended investment fund, managed by Al Bilad Investment Company ("the Fund Manager"), a subsidiary of Bank Al Bilad (the "Bank") for the benefit of the Fund's Unit Holders. The objective of the Fund is to achieve long term capital growth through investing in Sharia'h compliant equities listed in the Kuwaiti Stock Exchange with good track record.

The Fund commenced its operations on 1 January 2006 and operated under the regulations issued by Saudi Arabian Monetary Agency (SAMA) till when Capital Market Authority (CMA) pursuant to resolution number 1-219-2006 dated 3 Dhul Hijja 1427H (corresponding to 24 December 2006), issued Investment Funds Regulations detailing regulatory requirements for all funds operating within the Kingdom of Saudi Arabia. The terms and conditions of the Fund were initially approved by SAMA and subsequently endorsed by the CMA on 20 January 2009.

In dealing with the unit holders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. Furthermore, unit holders are considered to be owners of the assets of the Fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Investment Fund Regulations ("the Regulations") published by the Capital Market Authority (CMA) on 22 Dhul Hijja 1427H (corresponding to 12 January 2007) detailing requirements for all funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of compliance*

These financial statements are prepared in accordance with the generally accepted accounting standards issued by the Saudi Organization of Certified Public Accountants (the "SOCPA").

3.2 *Basis of measurement*

These financial statements have been prepared under the historical cost convention, except for the measurement of investments held for trading at fair value, using the accrual basis of accounting and the going concern concept.

3.3 *Functional and presentation currency*

These financial statements have been presented in Kuwaiti Dinars (KD), which is the functional currency of the Fund. All financial information presented in KD has been rounded to the nearest Dinar.

3.4 *Use of estimates and judgment*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and future years affected. The judgments, estimates and assumptions used by management have been applied consistently to all periods presented in the financial statements.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

4.1 Investments held for trading

Investments are classified as "held for trading" if they are purchased for the purpose of resale in the short term. Investment in mutual fund is initially recorded at cost which includes the purchase price plus all expenditures made by the Fund for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognised in the statement of income but excluding dividend income which is separately shown in the statement of income. Realised gains or losses at disposal and unrealised gains or losses are determined on average cost basis.

4.2 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 Fund 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 income statement) are initially recognized on trade date at which the Fund becomes a party to the contractual provision of the instrument.

4.3 Management fees and other expenses

Management fees and other expenses are charged at rates/ amounts within limits mentioned in terms and conditions of the Fund. These charges are calculated and accrued on each valuation day.

4.4 Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured or estimated.

4.5 Zakat / taxation

Zakat / taxation is the obligation of the unit holders and is not provided for in these financial statements.

4.6 Cash and cash equivalent

Cash and cash equivalent comprise of balances held in bank and investment account with an original maturity of three months or less, which are available to the Fund without any restriction.

4.7 Subscription and redemption of units

Units subscribed and redeemed are recorded at the net asset value per unit on the valuation day for which the subscription request and redemption applications are received.

4.8 Net asset value

The net asset value per unit disclosed in the balance sheet is calculated by dividing the net assets of the Fund by the number of units in issue at the year-end.

4.9 Financial instruments

Financial assets and liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of financial assets and financial liabilities are taken directly to the statement of income.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

(Kuwaiti Dinar)

5. MANAGEMENT FEE, ADMINISTRATION AND OTHER CHARGES

The Fund Manager charges each investor a subscription fee of a percentage not exceeding 3% (2011: 3%) of the subscribed amount to cover administration costs and is netted off against proceeds from issuance of units.

Fund Manager charges the Fund, a management fee at the rate of 1.75% (2011: 1.75%) per annum of the Fund's net asset value which is calculated and deducted on each valuation day.

The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in terms and conditions of the Fund. The Fund Manager has waived fees towards certain expenses of the Fund relating to the current year.

6. CASH AND CASH EQUIVALENT

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Current account	8	90,378	30,291
Investment account		<u>307,145</u>	<u>--</u>
		<u>397,523</u>	<u>30,291</u>

7. INVESTMENTS HELD FOR TRADING

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Equities -- Quoted	7.1	2,391,509	--
Mutual Fund - Al Durra Islamic Fund	7.2	<u>--</u>	<u>2,745,416</u>
		<u>2,391,509</u>	<u>2,745,416</u>
Cost		2,254,021	5,474,865
Unrealised gain (loss), net		<u>137,488</u>	<u>(2,729,449)</u>
		<u>2,391,509</u>	<u>2,745,416</u>

7.1 Following is the sector wise breakup of carrying value of investment in quoted equities at the reporting date

<u>Description by industry segment</u>	<u>2012</u>		
	<u>% of market value</u>	<u>Cost</u>	<u>Market Value</u>
Banks and financial services	27	618,818	639,573
Real estate development	22	499,415	519,478
Leasing	15	312,180	355,462
Logistics	9	190,986	221,241
Petrochemicals	8	190,795	193,748
Building & construction	6	144,280	153,675
Telecommunication	5	124,657	117,000
Manufacturing	5	98,869	116,002
Healthcare	3	74,021	75,330
Total investment	100	<u>2,254,021</u>	<u>2,391,509</u>

7.2 During the year the Fund Manager redeemed all units invested in Al Durra Islamic Fund and assigned Kuwait & Middle East Financial Investment Company as sub fund manager to manage investments in the Kuwait Stock Exchange.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012
(Kuwaiti Dinar)

8. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are in accordance with the terms and conditions of the Fund. All the related party transactions are approved by the Fund Board.

Related parties comprise of the Fund Manager, Bank AlBilad (Parent Company of the Fund Manager) and entities related to Bank AlBilad and the Fund Manager.

<u>Name of related party</u>	<u>Nature of transaction/balance</u>	<u>Value of transactions during the year</u>		<u>Closing balance</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
AlBilad Investment Company	Management fees	22,375	8,017	5,214	1,816
	Other expenses	4,781	11,082	--	2,894
Bank AlBilad	Cash and cash equivalent	--	--	90,378	30,291

9. SUBSCRIPTION AND REDEMPTION OF UNITS

Units of the Fund are made available for purchase only in the Kingdom of Saudi Arabia at the Bank AlBilad branches by natural and corporate persons. The net asset value of the Fund is determined on every Sunday and Wednesday ("valuation day"). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of Fund's total assets minus total liabilities) by the total number of outstanding units on the relevant valuation day.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's financial assets consist of cash and cash equivalent and held for trading investments and its financial liabilities consist of accrued expenses. Investments are carried at fair values and with respect to other financial assets and liabilities, management believes that fair values of these instruments are not materially different from their carrying values.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise financial assets and financial liabilities.

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders and to ensure reasonable safety to unit holders. The Fund manages its investment portfolio and other assets by monitoring the return on net assets and makes adjustments to its investment policy in the light of changes in market conditions. The capital available is dependent upon the issuance and redemption of units.

The Fund maintains position in financial instrument as dictated by its investment policy. All investments are "held for trading" investments. The Fund is exposed to credit risk, equity price risk, liquidity risk and currency risk.

AL-SEEF FUND
MANAGED BY ALBILAD INVESTMENT COMPANY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012
(Kuwaiti Dinar)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

10.1 Credit risk

Credit risk is a risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to credit risk on its cash and cash equivalent which are maintained with financial institutions with sound credit ratings.

The Fund's maximum exposure at the reporting date is represented by respective carrying amounts of the relevant financial assets in the balance sheet.

10.2 Equity price risk

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

The Fund is exposed to equity price risk arising from its investments held for trading portfolio due to investment in quoted equity shares that are listed on the Kuwait stock exchange. Equity price risk is managed by diversifying the portfolio. This is achieved by investing in securities in various sectors of market (note 7.1) and continuous monitoring of the equity prices by the Fund Manager.

10.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities and payment towards units redeemed. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

The Fund's terms and conditions provide for the subscription and redemption of units on every valuation day and it is, therefore, exposed to the liquidity risk of meeting redemptions at any time. The Fund's securities are considered to be readily realisable and they can be liquidated at any time. However, the Fund Manager has established certain liquidity guidelines for the Fund and monitors liquidity requirements on a regular basis to ensure sufficient funds are available to meet any commitments as they arise.

10.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates.

The Fund's transactions are principally in Kuwaiti Dinars and exposures in non-functional currencies are not significant.

11. LAST VALUATION DATE OF THE YEAR

The last valuation date of the year was 30 December 2012 (2011: 29 December 2011).

12. APPROVAL OF FINANCIAL STATEMENTS

These financial statements are approved by the Fund Board on 23 March 2013 corresponding to 11 Jumada I 1434 H.