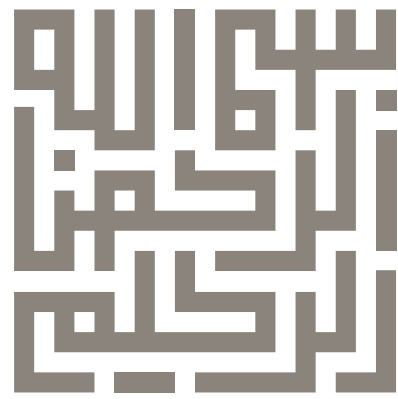




# Annual Report 2011









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



**HRH Prince Naif Ibn Abdulaziz Al Saud**  
Crown Prince, Deputy Prime Minister  
and Minister of Interior

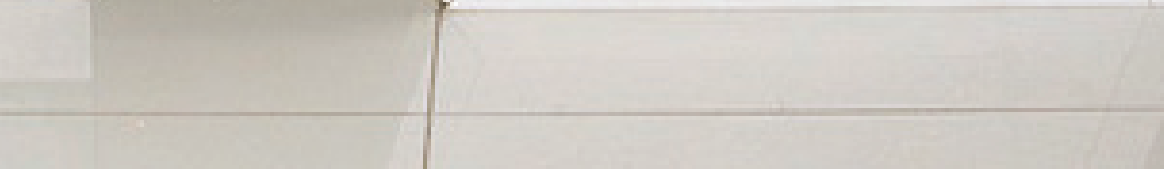
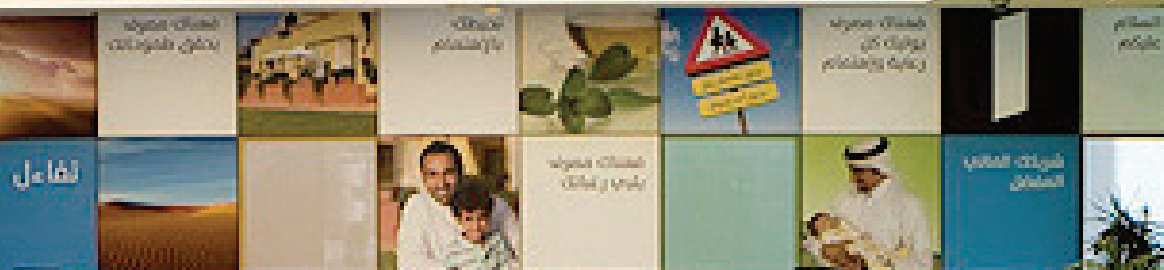




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# Greetings





## Greetings

During the fiscal year 2011, Alinma Bank continued its record of achievement, accomplishment and success. The commitment of staff to the bank's principles and values, as applied in dealings with Alinma partners, has been the driving force behind such success and accomplishment. This commitment, along with the spirit of teamwork, has made Alinma Bank a leading institution in the provision of exemplary, innovative, Shariah-compliant banking services that leverage a modern work environment built upon the latest in banking technology to serve bank partners.

Thank you, Alinma partners, for your trust in us. We welcome you to a future of continued progress, growth and accomplishment with your bank, Alinma Bank.

Alinma Bank ... For Our Growth

# Vision Mission Values

## The Bank's Vision

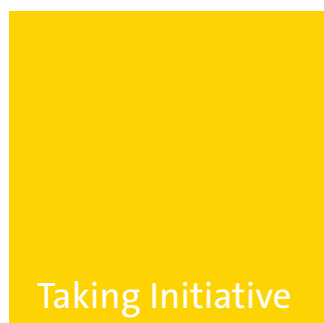
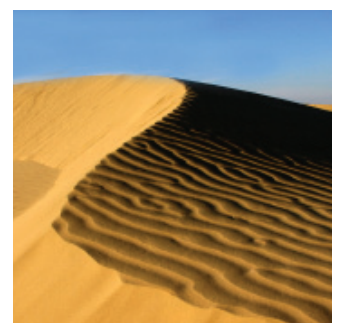
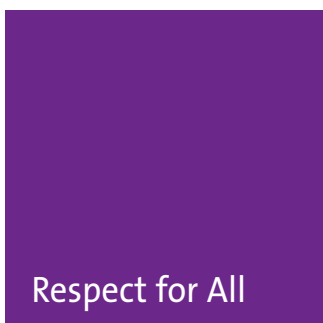
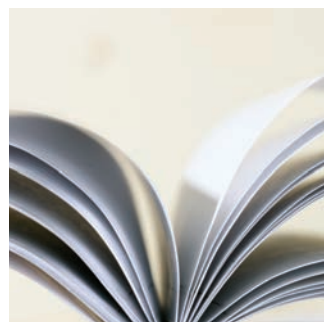
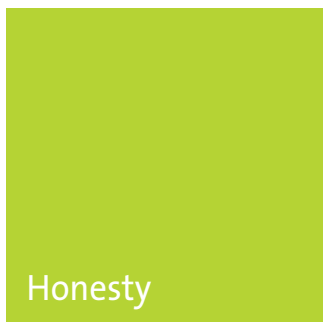
To be your preferred financial partner.

## The Bank's Mission

To provide our partners with total Shariah-compliant financial solutions through the best workplace that achieves sustainable development and participates in serving our community.

# The Bank's Values

The bank has established a work environment based on clear values to which all Alinma employees should commit:



Establishment



### Establishment

Alinma Bank was established under Royal Decree No. M/15, dated 28 Safar 1427, corresponding to March 28, 2006, and under Council of Ministers' Resolution No. 42, dated 27 Safar 1427, corresponding to March 27, 2006. Through the Council of Ministers' resolution, the bank has been authorized to engage in all aspects of Shariah-compliant banking and investment services.

### Capital

The bank was established with SAR 15,000,000,000 in capital, divided into 1,500,000,000 ordinary shares, each with a nominal value of SAR 10.

### Founders

The founding shareholders of the bank are as follows: the Public Investment Fund, the Public Pension Agency and the General Organization for Social Insurance. Upon the establishment of the bank, 10% of its shares were allocated to each of the founding shareholders. The remaining 70% of the shares were offered for public subscription during Rabie II 1429 (April 2008).



# Members of the Board of Directors





**Eng. Abdulaziz Abdullah Al-Zamil**  
Chairman of the Board



**Mr. Abdulmohsen Abdulaziz Al-Fares**  
Managing Director & CEO



**Dr. Suliman Mohammad Al-Turki**  
Member



**Mr. Saad Ali Al-Kathiry**  
Member



**Mr. Abdulmuhsin Abdulaziz Al-Hussein**  
Member



**Dr. Saad Attia Al-Ghamdi**  
Member



**Dr. Abdulrehman Hamad Al-Harkan**  
Member



**Mr. Mohamed Yousuf Naghi**  
Member



**Dr. Ibrahim Fahad Al-Ghufaili**  
Member

# A Message from the Chairman of the Board of Directors



The ambitious plans of the bank have been translated into reality, our achievements have been outstanding, and the result has exceeded all expectations taking into consideration the relatively short time the bank has been fully operational. These accomplishments are the result of the efforts exerted by our employees; and such efforts have become a consistent hallmark of the bank's relationship with our partners, to whom we extend our most sincere appreciation.

The past two years' accomplishments confirm that the bank has competently and confidently grown beyond the establishment phase. This could not

have been done without the hard work of the bank's competent management and dedicated employees, all of whom have made outstanding efforts. As a result, the dream of becoming an established fixture of banking excellence in Saudi Arabia has become a reality. Alinma now offers a complete array of quality banking services for its retail and corporate partners through a distinctive network of branches and ATMs across the Kingdom of Saudi Arabia and as well as through its e-channels.

This third annual report details the rapid growth of the bank's operations, branch network, e-channels



and the outstanding results of 2011. We are pleased that the bank has begun to contribute to the support of infrastructure projects and the national economy. This success would not have been possible without overall guidance and direction provided by the Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz Al Saud, who took the initiative in establishing Alinma Bank. I extend my thanks and gratitude to the Crown Prince, HRH Prince Naif Ibn Abdulaziz Al Saud and to our national government for all its efforts exerted to serve our country and its citizens. I would also like to thank the Ministry of Finance, the Saudi Arabian Monetary Agency, the Capital Market Authority and

all other government entities for their support of the banking sector and the national economy. My thanks are finally extended to the members of the Alinma Bank Board of Directors and the bank's employees, whose efforts have had such an impact on the building and launching of Alinma Bank.

**Abdulaziz Bin Abdullah Al-Zamil**  
Chairman of the Board of Directors

# A Message from the Managing Director/CEO



We, at Alinma Bank, have chosen, from the beginning, to be ambitious, striving for short, medium and long-term results. In addition, we have worked with all seriousness and dedication; and, therefore, we are now starting to enjoy the fruits of the outstanding effort put forth from the beginning.

Alinma Bank achieved outstanding growth in 2011. Our optimism has been increasing day after day as we strive to fulfill our mission: Providing our partners with fully Shariah-compliant financial solutions under the best working environment that achieves sustainable growth and contributes to serving our community.

Our aspirations at Alinma Bank are great; and our 2011 results are just the beginning. The bank's employees have exerted their utmost efforts towards the achievement of these excellent results.

In 2011, the financing portfolios grew from SAR 15.6 billion to SAR 25.3 billion, deposits grew from SAR 8.3 billion to SAR 17.8 billion, and total assets grew from SAR 26.5 billion to SAR 36.8 billion. The partner base

increased in 2011 by more than 170% and the bank's market share increased substantially despite an environment of stiff competition.

Alinma Bank strives to earn the confidence of its partners and promises to provide them with the very best, Shariah-compliant products and services that are delivered using the very latest in modern banking industry technology and practices. In doing so, Alinma hopes to establish a reputation of excellence that enhances the bank's image in the minds of its partners.

The bank is moving forward confidently in accordance with its strategy, which includes extending Alinma's reach to all regions of the Kingdom in order to strengthen the bank's competitive ability. We are determined to complete the branch and ATM networks, which will allow Alinma to serve our partners wherever they may be, providing financial solutions that address their needs. The expansion and growth of the bank and its capabilities will also position Alinma to continue contributing to the economic development of the Kingdom through the funding of infrastructural, industrial and commercial projects, housing sector projects and other economically feasible projects, all of

which will lead to job creation and will help to ensure decent lives for citizens.

The significant challenges experienced by the global banking sector in 2011 and the financial shocks and economic recessions witnessed worldwide have strengthened our confidence in the Kingdom's wise economic leadership, who have minimized the effects of such shocks and recessions on our national economy. This motivates us to exert greater effort to achieve the vision and aspirations of our leadership for the future of the bank.

Alinma Bank's success is undeniable on both local and global levels. This has been reflected in the recognition Alinma has received for the excellence of its products and services. The bank was named «Best Islamic Financial Institution in Saudi Arabia» at the Islamic Sukuk Summit held in London, punctuating Alinma Bank's excellence and leadership in the Shariah-compliant banking industry. The bank also obtained UTI Tier III certification for the design and implementation of information centers and Tier III Constructed Facility certification for the implementation of information centers from the Uptime Institute, making the bank

the first institution in the Middle East and North Africa to obtain both of these global certifications. The bank also was the first in Saudi Arabia to be PCI-DSS version 2.0 certified, and thus succeeded in maintaining its compatibility with and application of the best security standards at the global level in the protection of partner data.

In conclusion, I would like to extend my sincere thanks and appreciation to the members of the Alinma Bank Board of Directors, the Shariah Board and the staff of the bank, who played a great role in the success achieved by the bank in 2011. My thanks are also extended to our partners for their confidence and support. My gratitude is extended to the Ministry of Finance, the Saudi Arabian Monetary Agency, the Capital Market Authority and the founders of the bank for their support and encouragement to strengthen the contemporary banking environment in Saudi Arabia under the auspices of the government of the Custodian of the Two Holy Mosques and HRH the Crown Prince.

**Abdulmohsen Bin Abdulaziz Al-Fares**  
Managing Director/CEO

# Key Accomplish- ments of 2011



## Alinma Partners: Growth and Confidence

Alinma Bank grew rapidly in 2011, as indicated by the following:

- The number of partners increased by 178%
- Deposits increased by 114%,
- Financing customers increased by 182%
- Financing increased by 62%
- The number of ATM cards issued rose by 164%
- The number of transactions executed through ATMs rose 166%
- The number of partners registered with the phone banking service increased by 73%
- The number of transactions executed through the phone banking service increased by 211%
- The number of registered Alinma Internet users increased by 138%
- The number of transactions executed via the internet increased by 193%
- The number of registered Alinma Mobile users increased by 145%
- The number of transactions executed through Alinma Mobile increased by 336%
- Total assets grew by 39%
- Affluent partners base increased by 74.3%

## Branch and ATM Networks Grow to Serve Alinma Partners

During 2011, several new branches and ATMs were launched. The number of branches launched in 2011 amounted to 31 (17 for men and 14 for ladies), an increase of 86%. The number of ATMs rose from 200 in 2010 to 400 by the end of 2011, an increase of 100%.

## Human Capital: Recruitment & Development

Among the bank's key accomplishments in 2011 was its ability to attract, train and retain significant numbers of qualified personnel. This included both experienced employees as well as fresh graduates. During 2011, Alinma recruited 386 male and female employees, bringing the total number of employees at the close of 2011 to 1,409 with a Saudization rate that exceeded 85%. 1984 employees were trained in a total of 5952 training days including cognitive, behavioral and skill training courses in banking, legal, administration and finance, which were provided by specialized consulting firms. Other courses were also provided by the bank on the topics of products, services and systems.

## Development of Systems and Security of Applications Reflect IT Excellence

The bank continued to develop advanced, secure banking technological systems as part of its vision to be the preferred



financial partner for all. It also improved the performance and availability of current banking systems so as to be prepared to face the significant increases in the number of operations resulting from the increasing number of partners, branches and ATMs. This approach has positively impacted the bank's achievements in the areas of systems and application design and deployment. In 2011 the bank obtained UTI Tier III certification for the design and implementation of information centers and Tier III Constructed Facility certification for the implementation of information centers from the Uptime Institute, making the bank the first institution in the Middle East and North Africa to obtain both of these global certifications. The bank also was the first in Saudi Arabia to be PCI-DSS version 2.0 certified, and thus succeeded in maintaining its compatibility with and application of the best security standards at the global level in the protection of partner data. The bank also succeeded in maintaining its ISO 27001 certification related to the security of online banking information.

### **Striving for Leadership in the Service of Corporate Partners**

Alinma Bank provides its services for corporate partners through an array of products and services, including current and investment accounts, checking services, various trade services, guarantees, documentary credits and collections, deposits, withdrawal and transfer services, local and international remittances through branches and e-channels, cash and liquidity management, Murabaha, Musharaka, Bai Al-Ajel, Ijara, foreign exchange and other financial services related to corporate banking.

During 2011, the bank entered into several contracts with major companies engaging in various infrastructure projects in Saudi Arabia related to water, electricity, education, health, and security as well as industrial projects for the production of basic building materials such as iron and cement. Alinma also participated in the funding of a number of housing projects.

### **Retail Banking: Modern Products and Services**

During 2011, the Retail Banking group introduced several new products and services, some of which were offered for the first time in Saudi Arabia, such as automated safe deposit boxes, which are available round-the-clock. Internet activation and suspension of online purchasing through Alinma cards was also introduced. Other new products and services available at branches and through the bank's e-channels included the following: transfers to charities, IPO services, Murabaha real estate financing, government payments, Ministry of Interior fine and fee payments, cash withdrawals in U.S. dollars via ATM at selected locations, transfers to/from investment accounts, a partner feedback system, Ijara real estate financing of buildings under construction, the provision of point-of-sale devices, updated internet banking, secure e-commerce through the "Verified by Visa" service, automated alert notifications via SMS for all banking transactions, savings accounts, and acceptance of MasterCard transactions at ATMs and point-of-sale terminals.

### **Alinma Bank: Inviting Partners to Higher Aspirations**

During 2011, the bank promoted the concept of aspiration among partners through unique advertising campaigns that emphasized the principles of transparency and clarity. Additionally, through participation at various events throughout the year, Alinma was able to engender an optimistic vision for the future of the bank and it was also able to develop its partner base in all regions of the Kingdom in response to the growing demand for its outstanding services. The bank participated in a number of social events such as Career and Employment Days and the ARAMCO summer festivals in Riyadh, Dammam and Ras Tanura. Participation in such events allowed the bank to share its vision, mission and values with both families and youth.

During 2011, Alinma also encouraged the development of education in Islamic finance through a memorandum of understanding (MOU) signed with Imam Mohammed Ibn Saud Islamic University to support its Shaykh Mohammed Al-Rashid Chair for Banking and Islamic Studies. Other MOUs related to the development of the Islamic banking and finance industry were also signed with SABIC and the Ministry of Islamic Affairs.

The bank also participated in the establishment of the Reyada Institute, which aims to promote entrepreneurship and the development of the small and medium enterprise sector. The program helps to train and fund 10,000 entrepreneurs involved in small and medium sized projects through approved centers.

Thanks to its efforts in 2011, Alinma Bank was recognized both locally and internationally for its efforts and accomplishments. This culminated in the receipt of the award for the “Best Islamic Financial Institution in Saudi Arabia” during the Islamic Sukuk Summit held in London in June 2011.

## Sustainable Growth and Success in Treasury Operations

The bank adopted a conservative approach during 2011 in anticipation of worldwide economic and political fluctuations. This approach contributed to the stability of performance throughout the year. Reliable strategies have also been adopted to absorb risk and to invest in all sectors of business such as foreign currencies, trading and investment portfolios. Furthermore, the Assets and Liabilities Management desk handled liquidity needs carefully in order to fund the needs of key activities of the bank.

Alinma also continued to establish business relationships with local, regional and global financial institutions as well as government and semi-governmental agencies in order to enhance the services of the bank. The bank also continued to achieve growth and success during 2011, including the introduction of new products and services that attracted new flows of partners through the offering of competitive prices and efficient services and further improving cross-selling between business groups of the bank. The bank also launched a Suq Al Sila'a product in 2011 as the first institution in the region to provide a platform that utilizes the Malaysian goods market to supply Alinma retail and corporate partners with low-cost, Shariah-compliant solutions that meet their funding needs.

## Alinma Investment: Fruitful Partnership

Alinma Investment, Alinma Bank's investment subsidiary, launched both local and international brokerage services, private portfolio services, and advisory services to private and public companies.

Alinma Investment also began offering fully Shariah-compliant investment funds to partners. These included the Alinma Fund for Saudi Shares, which aims at long-term growth, and the Alinma Fund for Liquidity in Saudi Riyals, which aims at short-term returns.

The company has also started to provide investment banking services through its participation as an IPO underwriter. Additionally, the company acted as a Shariah advisor for the structuring of the Sukuk introduced by Saudi ARAMCO and TOTAL Petrochemicals. Moreover, Alinma Investment provided public subscription and other services for individual and corporate partners.

# Directors' Report





The Board of Directors of Alinma Bank is pleased to present the Third Annual Report for the fiscal year ended December 31, 2011.

This report provides information about the bank's activities, financial results and future plans together with information about the Board of Directors and its various committees and other supplementary information designed to meet the needs of the users of this report.

## Principal Activities of the Bank

Alinma provides a comprehensive range of Shariah-compliant banking and investment services. It takes care of the needs of its partners and strives to provide the best possible services through (65) locations (37 for men and 28 for women) by the end of 2011, supported by the state of the art technology, professionally trained staff, and the best electronic channels including Alinma internet [www.alinma.com](http://www.alinma.com), Alinma phone 8001208000, Alinma mobile and the wide network of ATMs spread over all regions of the Kingdom.

## Subsidiaries and Associates

**Alinma Investment Company:** Based in Riyadh, the company is authorized to deal in securities as principal as well as agent, and to provide underwriting, custodianship, asset management, advisory and arranging services. The Company has an authorized capital of SAR 1,000 million and paid-up capital of SAR 250 million wholly subscribed by the Bank.

**Al-Tanweer Real Estate Company:** Based in Riyadh, formed to facilitate mortgage financing and to hold on behalf of the Bank, the title for real-estate pledged as collateral against commercial financing extended by the Bank. The company has an authorized capital of SAR 100,000 wholly subscribed by the bank.

**Tokio Marine Saudi Arabia:** (under formation): Based in Jeddah, the company is authorized to conduct insurance business in accordance with Shariah and SAMA guidelines. The Bank has acquired 28.75% stake in company's capital of SAR 200 million.

## Financial Highlights

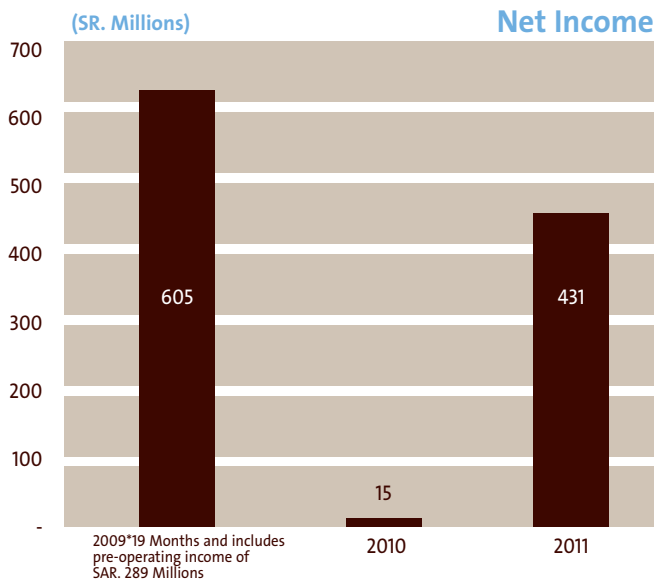
Financial highlights for the last three years are given below:

Financial Position	SAR in millions		
	2011	2010	2009
Financing, net	25,529	15,593	1,112
Investments ( including due from banks and FIs)	7,431	8,427	14,846
Total Assets	36,783	26,549	17,306
Customers' Deposits	17,776	8,316	1,498
Total Owners Equity	15,894	15,501	15,605

Operating Results	SAR in millions		
	2011	2010	2009 (19 months)
Net income from investment and financing activities	1,112	525	945
Fee from banking and other services	276	137	9
Total operating income	1,388	662	954
Total operating expenses	957	647	638
Net operating income	431	15	316
Pre-operating income, net	-	-	289
Net Income	431	15	605

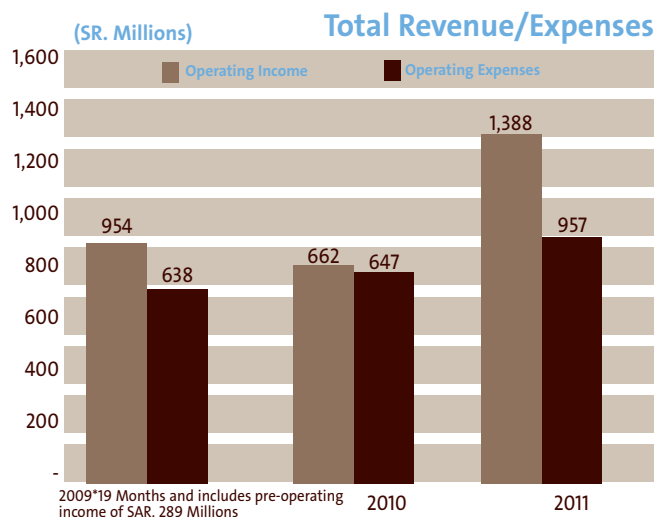
## Operating Results

The Bank registered net income of SAR 431 million for the financial year ended December 31, 2011 compared to the net income of SAR 15 million for the previous financial year.



Total operating income for the year ended December 31, 2011 amounted to SAR 1,388 million compared to SAR 662 million for financial year 2010 reflecting a significant growth of 110%. Net income from investments and financing activities during the year 2011 increased to SAR. 1,112 million reflecting a growth of 112% over SAR 525 million last year. The above growth is directly attributable to significant increase in core banking business during the year.

During the year 2011, the bank has also made a collective provision against financing portfolio of SAR. 119 million compared to SAR. 3 million for the year 2010. Besides, the bank continued with its expansion plan by adding 17 new male branches, 14 ladies sections bringing the total banks' locations to 37 for men and 28 for women, in addition to 200 new ATMs added to its network bringing the total to 400 ATMs by end of the year 2011. As a result the operating expenses increased to SAR. 957 million compared to 647 million last year.

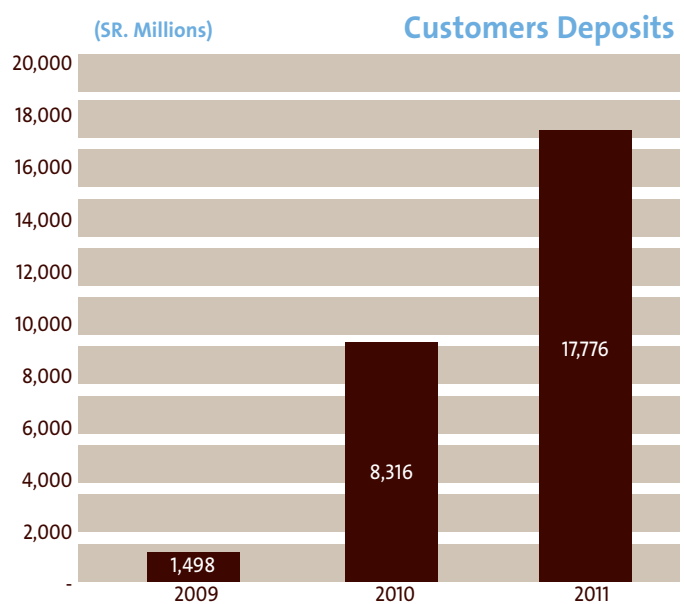
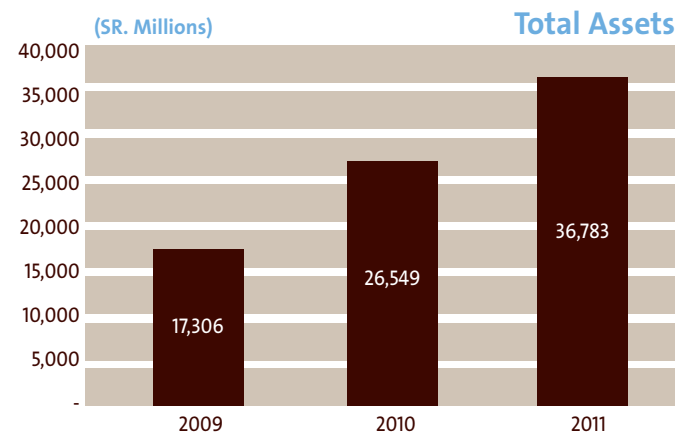


## Earnings per Share

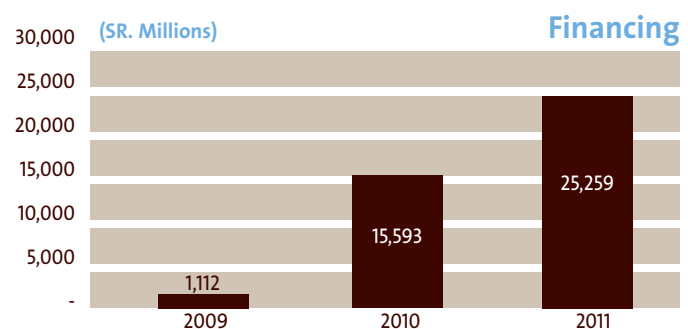
Earnings per share for the year amounted to SAR 0.29 compared to SAR. 0.01 for the year 2010.

## Financial Position

The bank's assets grew by 39% to SAR. 36,783 millions on the back of 114% growth in deposits from SAR 8,316 million to SAR 17,776 million as of Dec 31, 2011.



On the other hand, the financing portfolio also grew by 62% from SAR 15,593 million to SAR 25,259 million by the end of year 2011.



## Shareholders' equity and Capital Adequacy

Shareholders' equity stood at SAR 15,894 million by the end year 2011 compared to SAR 15,501 million as at December 31, 2010. Alinma's Capital Adequacy ratio declined from 75% to 44% by the end of 2011 due to the growth in the financing portfolio. The current Capital Adequacy ratio for Alinma is much higher than the minimum SAMA regulatory requirement for banks of 8%.

## Financial Position by Segments

Following is the financial analysis of the Bank across its major business segments.

SAR in millions-2011

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Other	Total
Total Assets	4,772	20,997	8,151	282	2,580	36,783
Total Liabilities	10,227	3,558	6,542	109	454	20,889
Total Operating Income	273	674	209	13	219	1,388

SAR in millions-2010

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Other	Total
Total Assets	2,031	13,795	8,650	276	1,797	26,549
Total Liabilities	4,378	1,654	4,733	82	201	11,048
Total Operating Income	54	333	169	2	104	662

## Geographic Analysis of Revenue

Almost all revenue has been derived from banking activities inside the Kingdom of Saudi Arabia. The bank's business locations are divided into 3 regions, and the following table shows the bank revenue allocated according to regions:

SAR in millions

Total revenue	Western Region	Eastern Region	Central Region	Total
Financial year ended 31-12-2011	396	44	948	1,388
Financial year ended 31-12-2010	146	19	497	662

## Branches and ATM Networks

The Bank during the year 2011 opened 17 branches for men and 14 locations for ladies, bringing the total number of locations to 37 for men and 28 for ladies. In addition, the Bank also added 200 new ATMs bringing the total to 400 ATMs by end of the year.

## Borrowing by the Bank

Total outstanding borrowings as of December 31, 2011 amounting to SAR 2,443 million are maturing maximum by January 31, 2012. The aggregate maximum exposure during the year was SAR 3,036 million.

## Dividend Distribution Policy

As stipulated in Alinma bank Articles of Association, the bank distributes its net income after deducting all general expenses, other costs, providing necessary reserves for bad debts, investment losses and any other contingent commitments that BOD may consider appropriate in accordance with the Banking Control law and SAMA directives, as follows:

1. The Zakat liability is computed and paid by the bank to the concerned authorities.
2. Not less than 10% is transferred to the Legal Reserve until such reserve becomes equal to the paid up capital.
3. After 1 and 2 above, at least 5% of the paid up capital may be distributed to shareholders when proposed by the Board of Directors and approved by the General Assembly. If the remaining profits are not sufficient to pay 5%, shareholders shall have no right to claim the payment during next or subsequent year/years. The General Assembly shall have no right to increase the dividends beyond the one recommended by the Board of Directors.
4. Remaining balance (after allocating the amounts referred to in paragraphs 1, 2 and 3 above) shall be appropriated as proposed by the Board of Directors and agreed by General Assembly.

## The board approved the following appropriations:

Particulars	2011	2010
	SAR in millions	
Net income for the year	431	15
Less: Transfer to statutory reserve-(25% of net income)	(107)	(4)
Transfer to general reserve	-	-
Retained earnings-brought forward	465	454
Retained earnings-carried forward	789	465

## Board of Directors

The Bank is being managed by a Board of directors consisting of nine (9) members that get appointed by the shareholders in ordinary General Assembly for a period of 3 years. As an exceptional case, and as per the Bank's Articles of Association, the first Board of Directors has been appointed by the Founding Members for a period of five (5) years. The Board held six meetings during the financial year 2011 as shown in the table below:

Name	Status	Other Directorships	Meeting Dates						Total
			23/01/2011	13/03/2011	27/03/2011	29/05/2011	16/10/2011	18/12/2011	
Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	Independent	Al Sahara Co., Sipchem Co. & Al-Zamil Group	√	√	√	√	√	√	6
Mr. Abdul Mohsen Abdul Aziz Al- Fares (Managing Director/CEO)	Executive	NTCC, SABIC*, Alinma Investment Co.*	√	√	√	√	√	√	6
Dr. Suleiman Mohammad Al-Turki	Non- executive	National Water Company	-	√	√	√	-	-	3
Mr. Saad Ali Al-Kathiry	Non- executive		√	√	√	√	√	√	6
Mr. Abdul Mohsin Abdul Aziz Al- Hussein	Non- executive		√	√	√	√	√	√	6
Dr. Abdulrehman Hamad Al-Harkan	Independent		√	√	√	√	√	√	6
Dr. Saad Attia Al-Ghamdi	Independent		√	-	√	√	√	√	5
Mr. Mohammed Yousef Naghi	Independent	Eimaar the Economic City	-	√	√	-	√	√	4
Dr. Ibrahim Fahad Al- Ghufaili	Independent		√	√	√	√	√	√	6

\* Part of the year 2011

## Change in Major Shareholding

The shareholding of Public Pension Agency has increased by 0.71% during the year 2011. The shareholders whose ownership exceeds 5% are listed below:

Shareholder	Number of shares	Ownership percentage
Public Pension Agency	160,700,000	10.71%
Public Investment Fund	150,000,000	10.00%
General Organization for Social Insurance	150,000,000	10.00%

## Committees of the Board of Directors

The Board has formed various committees to assist it in discharging its duties and responsibilities, as follows:

### Executive Committee

The Executive Committee was formed by the Board of Directors, as stipulated by Article (19) of the bank's Articles of Association. The Executive Committee exercises all powers conferred upon it by the Board of Directors. The committee is composed of five (5) members and headed by the Chairman of the Board of Directors. Its meetings are deemed valid if attended by at least three (3) members.

The committee has held nine (9) meetings during the financial year as shown in the table below:

Name	Meeting dates									Total
	01/02/2011	27/03/2011	10/04/2011	08/05/2011	29/05/2011	03/07/2011	14/08/2011	13/11/2011	27/11/2011	
Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	√	√	√	√	√	√	√	√	√	9
Mr. Abdul Mohsen Abdul Aziz Al-Fares	√	√	√	√	√	√	√	√	√	9
Dr. Suleiman Mohammad Al-Turki	√	√	√	√	-	√	√	√	√	8
Mr. Abdul Mohsen Abdul Aziz Al- Hussain	√	√	√	√	√	√	√	√	√	9
Dr. Ibrahim Fahad Al-Ghufail	√	√	√	√	√	√	√	√	√	9

### Benefits & Compensation Committee

The Benefits and Compensations Committee was formed by the Board of Directors and is composed of five (5) members. The Committee is responsible for nomination of Board members and ensuring their independence. They are also responsible to formulate policies for benefits and compensation of Board members and senior executives.

Two meetings were held during the financial year 2011, and were attended by members as shown in the table below:

Name	Meeting dates		Total
	27/03/2011	28/12/2011	
Dr. Suleiman Mohammed Al-Turki (Chairman)	√	√	2
Mr. Abdul Mohsen Abdul Aziz Al-Fares	√	√	2
Mr. Saad Ali Al- Kathiry	√	√	2
Dr. AbdulRahman Hamad Al-Harkan	√	√	2
Mr. Mohammed Yousef Naghi	-	√	1

## Audit Committee

The Audit Committee is composed of three (3) non-executive members. It is responsible for review of the financial statements and accounting policies, supervision of the internal audit function, and to recommend the appointment of external auditors.

The committee held four (4) meetings during the financial year as shown in the following table:

Name	Meeting Date				Total
	17/01/2011	06/04/2011	06/07/2011	08/10/2011	
Dr. Saad Attia Al-Ghamdi (Chairman)	√	√	√	√	4
Dr. Saud Muhammad Al Nemer *	√	√	√	√	4
Mr. Khalid Muhammad Al Obudi *	√	-	-	√	2

\* Not a member of the Board of Directors.

## Executive Management

The executive management is composed of a number of executives headed by the CEO which manages the day-to-day business of the Bank.

## Remuneration of Members of the Board of Directors and Senior Executives

Description	Executive Director	Non Executive Directors	Top Five Senior Executives who received the highest compensation and remuneration from the company, including the CEO and CFO
Salaries & compensations	-	-	8,251,000
Allowances	66,000	349,020	3,827,628
Annual & Periodic remuneration schemes	264,467	2,115,736	4,762,618
Incentive Plans	-	-	-
Other compensations or benefit in kind paid monthly or annually	-	-	-

## Sharia'h Board

Alinma Bank is committed to conduct its business in compliance with Sharia'h. Article (48) of the Articles of Association stipulates that "all the company's business shall be subject to the provisions and controls of Sharia'h". The bank appointed a Sharia'h Board to provides guidance, supervision and monitoring of all business carried out by the Bank. The Sharia'h Board has the following three members , all of whom are specialized in the jurisprudence of Islamic finance and economics:

1. Dr. Abdul Rahman Ben Saleh Al Atram - Chairman
2. Dr. Abdullah Ben Wakeel Al Sheikh
3. Dr. Suleiman Ben Turkey Al Turkey

To achieve the above objective, Shariah Board is supported by Shariah group, which is one of the important groups within the organizational structure of the Bank.

## Legal Penalties and Sanctions

The bank has not been imposed any material penalties during the year. Following are the penalties that have been imposed on Alinma group during 2011:

- Saudi Arabian Monetary Agency (SAMA) SAR. 155,771
- Capital Market Authority (CMA) SAR. 110,000
- Ministry of Municipalities and Rural Affairs SAR. 395,000

The penalties were mainly attributed to operational issues that have been rectified subsequently.

## Legally Accrued Payments

The estimated Zakat for the financial year ended December 31, 2011 amounted to SAR 185 million while the withholding tax payable at the end of financial year 2011 amounted to SAR 37,765.

## Staff Benefits

Benefits and compensation of employees are paid in accordance with the provisions of the Saudi Labor Law. As at December 31, 2011, the accumulated balance for the end of service benefits amounted to SAR 33 million. Additionally, the Bank and its employees make monthly contributions towards the General Organization for Social Insurance (GOSI) for staff welfare as per the Saudi Labor Law.

## Ownership of the Bank's Shares by the Chairman and Members of the Board of Directors and Senior Executives and their Spouses and Minor Children

Description of all ownership by members of the Board of Directors, their spouses and minor children in the shares, sukuku and other instruments issued by the Bank or any of its subsidiaries

No	Name	Beginning of the Year		End of the Year		Net Change	% Change
		No. of Shares	Sukuku	No. of Shares	Sukuku		
1	Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	120,572	-	450,572	-	330,000	273.69%
2	Mr. Abdul Mohsen Abdul Aziz Al- Fares (Managing Director/CEO)	259,367	-	300,000	-	40,633	15.67%
3	Dr. Suleiman Mohammad Al-Turki	51,145	-	51,145	-	-	0%
4	Mr. Saad Ali Al-Kathiry	1,290	-	1,290	-	-	0%
5	Dr. Saad Attia Al-Ghamdi	10,772	-	10,772	-	-	0%
6	Dr. Abdulrehman Hamad Al-Harkan	10,000	-	10,000	-	-	0%
7	Mr. Mohammed Yousef Naghi	10,000	-	10,000	-	-	0%
8	Dr. Ibrahim Fahad Al- Ghufaili	120,891	-	141,735	-	20,844	17.24%

Description of all ownership by senior executives, their spouses and minor children in the shares, sukuku and other instruments issued by the Bank or any of its subsidiaries

No	Name	Beginning of the Year		End of the Year		Net Change	% Change
		No. of Shares	Sukuku	No. of Shares	Sukuku		
1	Fahad Mohammed Al Semari	8,059	-	-	-	(8,059)	(100.00%)
2	Muhammad Iqbal M. Ibrahim	-	-	20,000	-	20,000	100.00%
3	Emad AbdulRahman Al Butairi	859	-	859	-	-	0%
4	Sulaiman Ali Al Hudaif	63,664	-	84,449	-	20,785	32.65%
5	Muhammad Abdullah Al Awadh	8,000	-	10,000	-	2,000	25.00%
6	Saad AbdulMohsin Al Yaqoub	276,407	-	276,407	-	-	0%
7	Haidar Ali Rashed	20,000	-	20,000	-	-	0%
8	Abdulaziz Mohammad Al Onaizan	150,000	-	200,000	-	50,000	33.33%

## Internal Control System

The management is responsible for establishing and maintaining an adequate and effective system of internal controls for implementing strategies and policies as approved by Board of Directors. The system of internal controls is based on what management considers to be appropriate for the Bank's activities, to the materiality of the financial and other risks inherent in those activities and to the relative costs and benefits of implementing specific controls. It is designed to manage rather than eliminate the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against material misstatement and loss. In addition, the Board of Directors has formed an Audit Committee, which periodically reviews the reports submitted by the internal/external auditors. Such reports also include the evaluation of the effectiveness or otherwise of the internal controls.

In view of the above, we believe that the bank has reasonably sound and effective system of internal controls in force, both in design and implementation. During the year, there have been no material observations in respect of effectiveness of internal control system and procedures of the Bank.

## Corporate Governance

In general, the bank operated in accordance with the provisions and guidance of the Corporate Governance Regulations issued by the Capital Market Authority (CMA) and Saudi Arabian Monetary Agency (SAMA). However, the Bank did not implement following CMA corporate governance guidelines:

**Article 6(b):** requires the use of the cumulative voting method at the General Assembly for nomination of Board members. The Bank has adopted the simple voting method as prescribed in its Articles of Association.

**Article 6(d):** requires the investors being judicial persons who act on behalf of others, such as investment funds, to disclose their voting policies, and ways of dealing with any material conflict of interest that may affect the fundamental rights in relation to their investments. The bank does not have the legal authority to enforce the implementation of this article.

**Article 10(B/1):** requires written policy to be in place for governing and rectifying the possible conflict of interest within Board of directors, executive management and shareholders activities – The Code of Conduct that rectifies many conflict of interest situations has been approved, however, the preparation of the required policy is underway.

**Article 10(C):** requires the bank to formulate its own code of Corporate Governance which should not in any way contradict with the one issued by CMA – the preparation of the Banks' own code of corporate governance is underway.

**Article 10(D):** requires to establish clear and specific policies, principles and procedures for the membership of Board of Directors, and its implementation after its approval by the General Assembly - the preparation of the stated policy and principles is underway.

## Waiver of rights/interest by Board Members, Senior Executives or Shareholders

The Bank does not have any information about any arrangement or agreement by virtue of which any Board member(s), senior executive(s) or Shareholder(s) has waived its right to receive dividend or any other interest in the Bank.

## Financial Reporting

**The Board of Directors confirms the following:**

1. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS), provisions of the Banking Control Law and regulations for companies in the Kingdom of Saudi Arabia have been followed in preparation of financial statements.
3. Proper books of accounts have been maintained as required by law.
4. Appropriate accounting policies have been consistently applied in preparation of financial statements. Some accounting estimates are used in the preparation of financial statements in accordance with accounting standards.
5. The system of internal control is sound in design and has been effectively implemented.
6. There are no doubts about the Bank's ability to continue as a going concern.
7. Apart from the information provided in note (31) to the consolidated financial statements, there are no contracts entered into by the Bank in which any of the members of the Board of Directors, the Chief Executive Officer or the Chief Financial Officer has any material interest.



## Future Plans

The bank will continue to enhance its operations through introduction of various Shariah compliant products and services, expansion of branches/ ATMs networks and growth in number of Retail and Corporate relationships.

Alinma is also planning to launch additional funds through its investment arm (Alinma Investment Company), while the Tokio Marine Saudi Arabia (associate under formation) is expected to receive the permission for initial public offering in 2012. The Bank is also considering formal launch of SMEs business and remittance.

In its normal course of business, the Bank is exposed to various risks including credit, market and liquidity. A detailed discussion on significant risks and mitigation strategies is included in notes 24 to 29 of the audited consolidated financial statements for 2011.

## Gratitude

The Board of Directors is pleased to express its pride on the bank's performance during the year 2011 in terms of expansion in branches and ATMs network and for electronic channels, the banking products and services made available to its customers that in turn have reflected in the improved operational results and the customer base.

On this occasion, the board expresses its sincere gratitude and appreciation to the honorable shareholders, customers, and the governmental and supervisory authorities in the Kingdom of Saudi Arabia for their support, trust and cooperation, which led to the aforesaid achievements and that will surely play a vital role in future as well in advancement and prosperity for the Bank.

The Board would also like to place on record the sincere appreciation for the loyalty and dedication of the Alinma Bank employees in accomplishment of their tasks.

**The Board of Directors**

# Auditors' Report & Financial Statements







**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ALINMA BANK  
(A Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Alinma Bank and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated 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 37. We have not audited note 33, 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 ("IFRS"), the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements:

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

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Rashid S. Al Rashoud  
Certified Public Accountant  
Registration no. 366

20 Rabi Al Awwal 1433H  
12 February 2012



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2011 and 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2011 and 2010	Notes	2011 SAR'000	2010 SAR'000
<b>ASSETS</b>			
Cash and balances with Saudi Arabian Monetary Agency (SAMA)	4	1,412,781	656,905
Due from banks and other financial institutions	5	4,003,328	5,803,317
Investments	6	3,428,281	2,623,589
Financing, net	7	25,258,534	15,593,250
Property and equipment, net	8	1,379,245	1,193,195
Other assets	9	1,301,197	678,481
<b>TOTAL ASSETS</b>		<b>36,783,366</b>	<b>26,548,737</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and other financial institutions	10	2,442,876	2,254,016
Customers' deposits	11	17,776,284	8,315,878
Other liabilities	12	670,185	478,291
<b>TOTAL LIABILITIES</b>		<b>20,889,345</b>	<b>11,048,185</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	262,969	155,135
Net change in fair value of available for sale investments		(3,233)	11
Retained earnings		788,906	465,406
Treasury shares	15	(154,621)	(120,000)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>15,894,021</b>	<b>15,500,552</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>36,783,366</b>	<b>26,548,737</b>

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the years ended December 31, 2011 and 2010	Notes	2011	2010
		SAR'000	SAR'000
Income from investments and financing	17	1,184,483	555,506
Return on time investments	17	(72,917)	(30,363)
Net income from investments and financing activities	17	1,111,566	525,143
Fees from banking services, net	18	256,624	128,528
Exchange income, net		11,745	4,654
Income from FVIS financial instruments, net		443	-
Dividend income		5,498	-
Other operating income		2,393	3,895
<b>Total operating income</b>		<b>1,388,269</b>	<b>662,220</b>
Salaries and employee related expenses	19	445,569	322,261
Rent and premises related expenses		66,236	46,066
Depreciation and amortization	8	123,746	92,007
Other general and administrative expenses		196,685	183,686
Charge for impairment on financing	7.1	124,699	3,000
<b>Total operating expenses</b>		<b>956,935</b>	<b>647,020</b>
<b>Net income</b>		<b>431,334</b>	<b>15,200</b>
Other comprehensive (loss) / income		(3,244)	11
<b>Total comprehensive income</b>		<b>428,090</b>	<b>15,211</b>
<b>Basic and diluted earnings per share (SAR)</b>	20	<b>0.29</b>	<b>0.01</b>

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.



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

For the years ended December 31, 2011 and 2010

2011 SAR'000	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Retained earnings	Treasury shares	Total
<b>Balance at the beginning of the year</b>	<b>13</b>	<b>15,000,000</b>	<b>155,135</b>	<b>11</b>	<b>465,406</b>	<b>(120,000)</b>	<b>15,500,552</b>
Comprehensive (loss) / income		-	-	(3,244)	431,334	-	428,090
Transfer to statutory reserve	14	-	107,834	-	(107,834)	-	-
Net change in Treasury shares	15	-	-	-	-	(34,621)	(34,621)
<b>Balance at the end of the year</b>		<b>15,000,000</b>	<b>262,969</b>	<b>(3,233)</b>	<b>788,906</b>	<b>(154,621)</b>	<b>15,894,021</b>

2010 SAR'000	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Retained earnings	Treasury shares	Total
<b>Balance at the beginning of the year</b>	<b>13</b>	<b>15,000,000</b>	<b>151,335</b>	<b>-</b>	<b>454,006</b>	<b>-</b>	<b>15,605,341</b>
Comprehensive (loss) / income		-	-	11	15,200	-	15,211
Transfer to statutory reserve	14	-	3,800	-	(3,800)	-	-
Net change in Treasury shares	15	-	-	-	-	(120,000)	(120,000)
<b>Balance at the end of the year</b>		<b>15,000,000</b>	<b>155,135</b>	<b>11</b>	<b>465,406</b>	<b>(120,000)</b>	<b>15,500,552</b>

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS For the years ended December 31, 2011 and 2010		Notes	2011 SAR' 000	2010 SAR' 000
<b>OPERATING ACTIVITIES:</b>				
Net income			431,334	15,200
<b>Adjustments to reconcile net income to net cash used in operating activities</b>				
Depreciation and amortization			123,746	92,007
Losses on disposal of property and equipment, net			14,567	-
Charge for impairment on financing			124,699	3,000
Income from FVIS financial instruments, net			(443)	-
			693,903	110,207
<b>Net (increase)/decrease in operating assets:</b>				
Statutory deposit with SAMA	4		(509,812)	(422,114)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition			715,164	(2,636,962)
Investments			(807,493)	(1,623,437)
Financing			(9,789,983)	(14,484,407)
Other assets			(622,716)	(613,744)
<b>Net increase/(decrease) in operating liabilities:</b>				
Due to banks and other financial institutions			188,860	2,254,016
Customers' deposits			9,460,406	6,818,350
Other liabilities			191,894	274,767
			(479,777)	(10,323,324)
<b>INVESTING ACTIVITIES:</b>				
Acquisition of property and equipment			(335,656)	(363,003)
Proceeds from disposal of property and equipment			11,293	-
			(324,363)	(363,003)
<b>FINANCING ACTIVITIES:</b>				
Purchase of treasury shares			(34,621)	(120,000)
			(34,621)	(120,000)
<b>Net decrease in cash and cash equivalents</b>				
			(838,761)	(10,806,327)
Cash and cash equivalents at the beginning of the year			1,324,058	12,130,385
<b>Cash and cash equivalents at end of the year</b>	<b>22</b>		485,297	1,324,058
Income received from investments and financing			1,102,006	492,683
Return paid to customers' time investments			67,468	11,876
<b>Supplemental non-cash information</b>				
Net changes in fair value of available for sale investments			(3,244)	11

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.



## 1. General

### a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). The Bank operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21/05/1429H (corresponding to May 26, 2008) and providing banking services through 37 branches (2010: 20) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Alinma Bank  
Head Office  
King Fahad Road  
P.O. Box 66674, Riyadh 11586  
Kingdom of Saudi Arabia

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiaries (the Bank):

Subsidiary	Bank Ownership	Establishment date
Alinma Investment Company	100 %	07 Jumada II 1430H (corresponding to May 31, 2009)
Al Tanweer Real Estate Company	100 %	24 Sha'aban 1430H (corresponding to August 15, 2009)

During the year, the Bank acquired the remaining stake in the above subsidiaries.

The Bank's objective is to provide a full range of banking and investment services through products and instruments that are in accordance with Islamic Shariah, the Articles of Association and within the provisions of Banking Control Law.

### b) Shariah Board

The Bank has established a Shariah Board in accordance with its commitment to comply with Islamic Shariah Laws. Shariah Board ascertains that all the Bank's activities are subject to its approval and control.

## 2. Basis of preparation

### a) Statement of compliance

These consolidated financial statements have been prepared:

- in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency ("SAMA") and International Financial Reporting Standards (IFRS); and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

### b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at fair value through income statements (FVIS) and available for sale (AFS) investments.

### c) Functional and presentation currency

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

### d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, 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 judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are the impairment of financial assets and depreciation/ amortization of property and equipment.

### 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 consolidated financial statements continue to be prepared on the going concern basis.

### 3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual financial statements for the year ended 31 December 2010, except for the adoption of relevant amendments/revisions to existing standards which become applicable during the year ended December 31, 2011.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and is mandatory for compliance for the Bank's accounting years beginning on or after 1 January 2012 (note 35).

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

#### a) Basis of consolidation

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and ceased to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies adopted by the subsidiaries are consistent with that of Bank's accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed.

Inter-group balances and any income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

#### 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 assets and liabilities are also initially recognized on the trade date at which the Bank becomes the party to the contractual provision of the instrument.

#### c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Realized and unrealized gains or losses on exchange are recognized in the consolidated statement of comprehensive income.

#### 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 Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### e) Revenue/expenses recognition

##### Income from investments and financing

Revenue and expenses related to financial instruments are recognized in the consolidated statement of comprehensive income on the effective yield basis. The effective yield is the rate that exactly discount the estimated future cash flows through the expected life of the financial asset or liability (or where appropriate, a short period) to its carrying amount. When calculating the effective yield the Bank estimates future cash flows considering all contractual terms of the financial instrument but not the future financing losses.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recorded as income/expense.

The calculation of the effective yield takes into account all contractual terms of the financial instruments and includes all fees, transaction costs, discounts that are an integral part of the effective yield. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

**Exchange income/loss**

Exchange income/loss is recognized when earned/incurred.

**Fees from banking services**

Fees from banking services that are not integral part of the effective yield calculation on the financial assets are recognized when the related service is provided as follows:

- Management, Administration, Advisory and Arrangement fees are recognized based on the applicable service contracts.
- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

**Dividend income**

Dividend income is recognized when the right to receive income is established. Dividends from FVIS investments are reflected as a component of net income from FVIS financial instruments.

**Income / (Loss) from FVIS financial instruments**

Net income from FVIS financial instruments relates to financial assets designated as FVIS and include all realized and unrealized fair value changes, profit, dividends and foreign exchange differences.

**f) Investments**

All investment securities are initially recognized at fair value and are subsequently accounted for depending on their classification as either held to maturity, FVIS, available for sale or other investments held at amortised cost. Except for investments held as FVIS, incremental direct transaction cost is also added to the fair value of investment upon initial recognition.

Premiums are amortised and discounts accreted using the effective yield basis and charged to consolidated statement of comprehensive income.

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 reporting 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 judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

**Held as fair value through income statement (FVIS)**

Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

Investments at FVIS are recorded in the statement of financial position at fair value. Changes in the fair value are recognized in the consolidated income statement for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Dividend income on financial assets held as FVIS is reflected as "Income from FVIS financial instruments" in the consolidated income statement.

**Available for sale**

These are investments that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in equity prices. Available for sale investments are subsequently measured at fair value. Unrealized gain or loss arising from a change in its fair value is recognized in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized is charged to income in the consolidated statement of comprehensive income.

**Investments held at amortized cost**

These are commodity Murabahas held at amortized cost. These are initially recognized at cost, including associated acquisition charges representing the fair value of amounts paid. Subsequently these are measured at amortized cost net of impairment, if any.

## g) Financing

Financing assets are originated or acquired by the Bank with fixed or determinable payments. These are recognized upon actual disbursements. Financing assets are derecognized upon repayment, or when sold or written off, or upon transfer of substantial control.

All financing are initially measured at fair value including the associated acquisition charges. Subsequently these are measured at amortized cost less impairment (if any).

Financing primarily includes Murabaha, Ijarah, Musharaka and Bei Ajel products. A brief description of these products is as follows:

**Murabaha:** is an agreement whereby the Bank sells to a customer certain commodity or an asset, which the bank has initially purchased on behalf of the customer. The selling price comprises of cost plus an agreed profit margin.

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

**Musharaka:** is an agreement between the Bank and the customer to contribute to a certain investment enterprise or property and concludes by transferring the full ownership of the underlying investment to the customer. The profit or loss is shared as per the terms of the agreement.

**Bei Ajel:** is an agreement whereby the Bank sells to a customer certain commodity or an asset on a negotiated price.

## h) Impairment of financial assets

A financial asset or group of financial assets is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or group of financial assets and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. An assessment for impairment is made on regular basis.

### Impairment of financial assets held at amortised cost

A specific allowance for losses due to impairment of a financing or any other financial asset held at amortized cost is recognized if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

In addition to a specific provision for losses, an additional portfolio provision for collective impairment is made on a portfolio basis for losses where there is objective evidence that unidentified losses exist at the reporting date.

When a financial asset is uncollectible, it is written off against the related allowance for impairment or directly by a charge to income in the consolidated statement of comprehensive income. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, 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 obligor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income, under impairment charge for losses.

### Impairment of available for sale financial assets

**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 income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity.

**For sukus and like instruments having fixed or determinable maturities,** the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

If, in a subsequent period, the fair value of these instruments increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

### i) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Land is not depreciated. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Furniture, equipment and vehicles	5-10 years
Leasehold improvements	the shorter of lease period or 10 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 amount. These are included in the consolidated statement of comprehensive income.

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

### j) Liabilities

All customer deposits and due to Banks and other financial institutions are initially recognized at fair value less transaction costs.

Subsequently, all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of comprehensive income.

### k) Guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is recognized as "allowances for impairment on financing" in the consolidated statement of comprehensive income.

The commission received is recognised in the consolidated statement of comprehensive income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

### l) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

### m) Accounting for Ijarah (leases)

#### Where the Bank is the lessor

Ijarah as fully explained in note 3(h) is a lease contract in which bank leases assets to a customer for an agreed rent over a specified period. Ijarah may end with transferring the ownership of the leased asset to the lessee at the end of the lease period, or during the lease period after settlement of outstanding dues along with / without an additional specified amount.

When assets are leased under (Ijarah), the present value of the lease payments is recognised as a receivable and disclosed under "Financing". Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

#### Where the Bank is the lessee

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

When an operating lease is terminated before the lease period has expired, any additional payment required to be made is recognized as an expense in the period in which termination takes place.

### n) 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, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

#### o) De-recognition of financial instruments

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

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

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

#### p) Zakat

Zakat is calculated in accordance with the Zakat rules and regulations applicable in the Kingdom of Saudi Arabia and is considered as a liability on the shareholders to be deducted from future dividends and hence not charged to the consolidated statement of comprehensive income. Zakat is recorded as and when paid.

#### q) Treasury Shares

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, dividends and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid.

### 4. Cash and balances with SAMA

	2011	2010
	SAR'000	SAR'000
Cash in hand	359,352	159,300
Statutory deposit	1,003,478	493,666
Current account	140	632
Other	49,811	3,307
<b>Total</b>	<b>1,412,781</b>	<b>656,905</b>

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

### 5. Due from banks and other financial institutions

	2011	2010
	SAR'000	SAR'000
Current accounts	27,403	70,959
Murabahas with banks and other financial institutions	3,975,925	5,732,358
<b>Total</b>	<b>4,003,328</b>	<b>5,803,317</b>

### 6. Investments

	Note	2011	2010
		SAR'000	SAR'000
Murabahas with SAMA, (at amortized cost)		2,649,934	2,549,776
Available for sale investments	6.1	695,407	73,813
Held as FVIS investments	6.2	25,440	-
Other investments	6.3	57,500	-
<b>Total</b>	<b>6.4</b>	<b>3,428,281</b>	<b>2,623,589</b>

## 6.1 Available for sale investments

	2011	2010
	SAR'000	SAR'000
Sukuks	334,000	-
Equity	226,114	23,813
Others	135,293	50,000
<b>Total</b>	<b>695,407</b>	<b>73,813</b>

The above investments are in quoted securities and include investment amounting to SAR 83.9 million (2010: NIL) in a mutual fund listed outside the Kingdom of Saudi Arabia.

## 6.2 Held as FVIS investments

These are investments in quoted equities of domestic market.

## 6.3 Other investments

During the year, the Bank invested SAR 57.5 million in Tokio Marine Saudi Arabia (a new Shariah compliant insurance company). The Company is under incorporation with an authorized share capital of SAR 200 million.

## 6.4 Analysis of investments by counter-parties

The analysis of investments by counter-parties is as follows:

	2011	2010
	SAR'000	SAR'000
Government and quasi government	2,802,047	2,558,027
Corporate	626,234	65,562
<b>Total</b>	<b>3,428,281</b>	<b>2,623,589</b>

## 7. Financing, net (at amortized cost)

2011	SAR'000				
	Performing	Non-performing	Total	Allowance for impairment	Net
Retail	4,265,804	10,134	4,275,938	(5,766)	4,270,172
Corporate	21,110,295	-	21,110,295	-	21,110,295
<b>Total</b>	<b>25,376,099</b>	<b>10,134</b>	<b>25,386,233</b>	<b>(5,766)</b>	<b>25,380,467</b>
Collective provision					(121,933)
<b>Financing, net</b>					<b>25,258,534</b>

2010	SAR'000				
	Performing	Non-performing	Total	Allowance for impairment	Net
Retail	1,778,609	-	1,778,609	-	1,778,609
Corporate	13,817,641	-	13,817,641	-	13,817,641
<b>Total</b>	<b>15,596,250</b>	<b>-</b>	<b>15,596,250</b>	<b>-</b>	<b>15,596,250</b>
Collective provision					(3,000)
<b>Financing, net</b>					<b>15,593,250</b>

## 7.1 Movement in allowance for impairment of financing:

2011	SAR'000		
	Retail	Corporate	Total
Balance at the beginning of the year	-	-	-
Provided during the year	<b>5,766</b>	-	<b>5,766</b>
Bad debts written off	-	-	-
Recoveries of amounts previously provided	-	-	-
Balance at the end of the year	<b>5,766</b>	-	<b>5,766</b>
Collective provision	-	-	<b>121,933</b>
<b>Total</b>	-	-	<b>127,699</b>

2010	SAR'000		
	Retail	Corporate	Total
Balance at the beginning of the year	-	-	-
Provided during the year	-	-	-
Bad debts written off	-	-	-
Recoveries of amounts previously provided	-	-	-
Balance at the end of the year	-	-	-
Collective provision	-	-	<b>3,000</b>
<b>Total</b>	-	-	<b>3,000</b>

## 7.2 Credit quality of financing portfolio

For the purpose of the Bank's internal risk rating, it has implemented the generic Moody's KMV Risk Analyst Tool. This Tool which is also being used by many leading banks globally and in the Kingdom, enables the Bank to assign internal risk ratings to individual obligors. The internal risk rating indicates the one year probability of credit default. Retail portfolio is not subject to the KMV tool rating.

The Credit Policy defines a 10 point rating scale with 1 (best) through 10 (worst). As part of the Bank's financing policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing.

### 7.2.1 Neither past due nor impaired

Bank's internal risk rating scale	Credit risk quality rating definition	2011	2010
		SAR'000	SAR'000
1 - 4	Investment Grade	<b>13,692,403</b>	8,896,301
5 - 6	Below Investment Grade	<b>7,413,265</b>	4,921,340
7	Watch list	-	-
		<b>21,105,668</b>	13,817,641
	<b>Unrated exposure</b>	<b>4,250,302</b>	1,771,317
<b>Total</b>		<b>25,355,970</b>	15,588,958

Rating Scale (1 – 4) represents: Substantially credit risk free, Exceptionally strong credit quality, Excellent credit risk quality, Very good credit risk quality.

Rating Scale (5 – 6) represents: Good to Satisfactory credit quality.

Rating Scale (7) represents: Watch List category.



### 7.2.2 Aging of Financing (Past due but not impaired):

2011	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	14,660	4,627	19,287
From 31 days to 90 days	842	-	842
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
<b>Total</b>	<b>15,502</b>	<b>4,627</b>	<b>20,129</b>

2010	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	7,123	-	7,123
From 31 days to 90 days	84	-	84
From 91 days to 180 days	70	-	70
More than 180 days	15	-	15
<b>Total</b>	<b>7,292</b>	<b>-</b>	<b>7,292</b>

### 7.3 Economic sectors risk concentration for financing and allowance for impairment are as follows:

2011	SAR'000			
	Performing	Non-performing	Allowance for impairment	Financing, net
Government and quasi government	6,346,022	-	-	6,346,022
Manufacturing	2,404,380	-	-	2,404,380
Electricity, water, gas & health services	1,184,283	-	-	1,184,283
Building and construction	5,798,764	-	-	5,798,764
Services	1,197,826	-	-	1,197,826
Consumer financing	4,265,804	10,134	(5,766)	4,270,172
Commerce	2,869,172	-	-	2,869,172
Others	1,309,848	-	-	1,309,848
	<b>25,376,099</b>	<b>10,134</b>	<b>(5,766)</b>	<b>25,380,467</b>
<b>Collective provision</b>				<b>(121,933)</b>
<b>Financing, net</b>				<b>25,258,534</b>

2010	SAR'000			
	Performing	Non-performing	Allowance for impairment	Financing, net
Government and quasi government	4,575,988	-	-	4,575,988
Manufacturing	126,032	-	-	126,032
Electricity, water, gas & health services	50,000	-	-	50,000
Building and construction	5,358,695	-	-	5,358,695
Services	1,266,990	-	-	1,266,990
Consumer financing	1,778,609	-	-	1,778,609
Commerce	2,305,078	-	-	2,305,078
Others	134,858	-	-	134,858
	<u>15,596,250</u>	<u>-</u>	<u>-</u>	<u>15,596,250</u>
<b>Collective provision</b>				<u>(3,000)</u>
<b>Financing, net</b>				<u><u>15,593,250</u></u>

## 7.4 Collateral

The Bank, in the ordinary course of financing, holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, local and international equities, real estate and other assets. The collaterals are managed against relevant exposures at their net realizable values.

Collaterals held by the Bank against financing by each category are as follows:

	2011	2010
	SAR'000	SAR'000
Neither past due nor impaired	<b>8,180,834</b>	6,431,117
Past due but not impaired	-	-
Impaired	-	-
<b>Total</b>	<b>8,180,834</b>	<b>6,431,117</b>

## 7.5 Financing includes Ijarah receivables. These receivables qualify the finance lease definition and, are as follows:

	2011	2010
	SAR'000	SAR'000
Less than 1 year	<b>399,381</b>	138,353
1 to 5 years	<b>2,273,583</b>	399,952
Over 5 years	<b>4,825,729</b>	3,534,477
Gross receivables from Ijarah	<b>7,498,693</b>	4,072,782
Unearned future finance income on Ijarah	<b>(1,156,051)</b>	(604,894)
Specific provision	<b>(1,458)</b>	-
<b>Net receivables from Ijarah</b>	<b>6,341,184</b>	<b>3,467,888</b>

## 8. Property and equipment, net

	SAR'000				
	Land and buildings	Leasehold improvements	Furniture equipment & vehicles	Total 2011	Total 2010
<b>Cost:</b>					
Balance at beginning of the year	459,568	138,713	765,478	<b>1,363,759</b>	<b>1,000,756</b>
Additions	110,397	53,801	171,458	<b>335,656</b>	<b>363,003</b>
Disposals	-	-	(39,898)	(39,898)	-
Balance at end of the year	569,965	192,514	897,038	1,659,517	1,363,759
<b>Accumulated depreciation:</b>					
Balance at beginning of the year	392	19,138	151,034	170,564	78,557
Charge for the year	4,722	16,320	102,704	123,746	92,007
Disposals	-	-	(14,038)	(14,038)	-
Balance at end of the year	5,114	35,458	239,700	280,272	170,564
<b>Net book value-as at December 31, 2011</b>	<b>564,851</b>	<b>157,056</b>	<b>657,338</b>	<b>1,379,245</b>	
Net book value-as at December 31, 2010	459,176	119,575	614,444		1,193,195

Property and equipment include work in progress as at December 31, 2011 amounting to SAR 123 million (2010: SAR 180 million). Furniture, equipment and vehicles includes information technology-related assets at cost SAR 739 million (2010: SAR 660 million) with accumulated depreciation and amortization value of SAR 206 million (2010: SAR 133 million).

## 9. Other assets

	Note	2011 SAR'000	2010 SAR'000
Accrued profit receivable on:			
Investments		37,510	14,529
Financing		392,025	154,066
<b>Total</b>		<b>429,535</b>	<b>168,595</b>
Zakat receivable from shareholders	21	607,005	336,034
Prepaid rental		22,330	19,184
Advances to suppliers		9,355	34,676
Other prepayments		30,635	7,673
Others		202,337	112,319
<b>Total</b>		<b>1,301,197</b>	<b>678,481</b>

## 10. Due to banks and other financial institutions

	2011 SAR'000	2010 SAR'000
Cash management account with SAMA	21,000	304,000
Murahahas with banks and other financial institutions	2,235,000	1,950,016
Others	186,876	-
<b>Total</b>	<b>2,442,876</b>	<b>2,254,016</b>

## 11. Customers' deposits

i) Customers' deposits include the following:

	2011	2010
	SAR'000	SAR'000
Demand	8,961,924	3,948,270
Customers' time investments	7,530,095	4,180,372
Others	1,284,265	187,236
<b>Total</b>	<b>17,776,284</b>	<b>8,315,878</b>

Other represents cash margins for letter of credits and guarantees

ii) The above includes foreign currency deposits as follows:

	2011	2010
	SAR'000	SAR'000
Demand	738,272	268,321
Customers' time investments	344,205	-
Others	1,160,569	145,304
<b>Total</b>	<b>2,243,046</b>	<b>413,625</b>

## 12. Other liabilities

	2011	2010
	SAR'000	SAR'000
Accrued profit payable on:		
Customers' time investments	27,272	20,582
Due to banks and other financial institutions	895	2,137
<b>Total</b>	<b>28,167</b>	<b>22,719</b>
Accrued expenses	117,144	75,961
Accounts payable	330,262	132,168
Advance rentals	180,656	101,190
Others	13,956	146,253
<b>Total</b>	<b>670,185</b>	<b>478,291</b>

## 13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2010: 1,500 million shares) of SAR 10 each. The ownership of the Bank's share capital is as follows:

	Percentage	
	2011	2010
Public Pension Agency ("PPA")	10.71 %	10.00 %
Public Investment Fund ("PIF")	10.00 %	10.00 %
General Organization for Social Insurance ("GOSI")	10.00 %	10.00 %
General public and others	69.29 %	70.00 %
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>

## 14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 107.8 million (2010: SAR 3.8 million) has been transferred from the net income for the year to statutory reserve. The statutory reserve is not available for distribution.

## 15. Treasury Shares

These shares have been acquired, after due approvals, for discharging the obligations of Employees Share based plans expected to be launched shortly.

## 16. Commitments and contingencies

### a) Legal proceedings

As at December 31, 2011 there were no significant legal proceedings outstanding against the Bank.

### b) Capital commitments

As at December 31, 2011, the Bank had capital commitments of SAR 119 million (2010: SAR 135 million) relating to property and equipment.

### c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise letters of guarantee, letters of credit, acceptances and unused irrevocable commitments to extend financing facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as investments and financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to invoke such commitments.

Documentary letters of credit are generally collateralized by the underlying assets to which they relate, and therefore have significantly less risk.

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

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

2011	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,627,184	520,585	109,035	-	2,256,804
Letters of guarantee	606,081	983,502	2,018,959	160	3,608,702
Acceptances	334,758	17,175	-	-	351,933
Irrevocable commitments to extend credit	-	1,621,666	-	-	1,621,666
<b>Total</b>	<b>2,568,023</b>	<b>3,142,928</b>	<b>2,127,994</b>	<b>160</b>	<b>7,839,105</b>

2010	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	391,412	478,397	512,305	-	1,382,114
Letters of guarantee	67,911	101,822	3,294,514	-	3,464,247
Acceptances	46,364	110,186	-	-	156,550
Irrevocable commitments to extend credit	-	-	-	-	-
<b>Total</b>	<b>505,687</b>	<b>690,405</b>	<b>3,806,819</b>	<b>-</b>	<b>5,002,911</b>

The counterparties in all the above commitments and contingencies are from the corporate business segment.

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2011	2010
	SAR'000	SAR'000
Government and quasi government	-	39,669
Corporate	7,012,628	4,190,420
Banks and other financial institutions	826,477	772,822
<b>Total</b>	<b>7,839,105</b>	<b>5,002,911</b>

iii) The outstanding unused portion of commitments as at December 31, 2011, which can be revoked unilaterally at any time by the Bank, amounts to SAR 7,449 million (2010:SAR 5,084 million).

#### d) Operating lease commitments

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

	2011	2010
	SAR'000	SAR'000
Less than one year	205	187
One year to five years	48,276	34,845
Over five years	300,087	352,426
<b>Total</b>	<b>348,568</b>	<b>387,458</b>

### 17. Income from investments and financing activities, net

	2011	2010
	SAR'000	SAR'000
<b>Income from investments and financing:</b>		
Investments (Murabaha with SAMA)	9,603	8,081
Investments in Sukuk	1,200	-
Murabaha with banks and other financial institutions	84,368	121,054
Financing	1,089,312	426,371
<b>Total</b>	<b>1,184,483</b>	<b>555,506</b>
Return on time investments	(72,917)	(30,363)
	<b>1,111,566</b>	<b>525,143</b>

### 18. Fees from banking services, net

	2011	2010
	SAR'000	SAR'000
<b>Fee and other banking services income on:</b>		
Corporate finance and advisory	178,463	94,045
Trade services	38,482	23,008
Card services	43,337	15,910
Other banking services	16,737	2,231
Total fee and commission income	<b>277,019</b>	<b>135,194</b>
<b>Fee and other banking services expense on:</b>		
Card services	(18,905)	(5,471)
Other fees	(1,490)	(1,195)
<b>Total</b>	<b>256,624</b>	<b>128,528</b>



## 19. Salaries and employee related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices.

2011	SAR'000				
	Number of employees	Fixed compensation	Variable compensation paid in 2011		
Cash			Shares	Total	
Senior executives requiring SAMA no objections	13	18,194	5,962	-	5,962
Employees engaged in risk taking activities	224	84,675	13,348	-	13,348
Employees engaged in control functions	95	27,654	3,370	-	3,370
Other employees	1,077	217,039	32,224	-	32,224
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	-
	<b>1,409</b>	<b>347,562</b>	<b>54,904</b>	<b>-</b>	<b>54,904</b>
Variable compensation accrued in 2011		87,365			
Other employee related benefits		10,642			
<b>TOTAL</b>	<b>1,409</b>	<b>445,569</b>	<b>54,904</b>	<b>-</b>	<b>54,904</b>

### 19.1 Salient features of Compensation Policy

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a "Compensation & Allowances" policy approved by the Board of Directors.

The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend the sound compensation policies for the adoption by the Bank.

While developing and implementing the policies, the Bank ensures to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams.

The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function.

The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

## 20. Earnings per share

Basic and diluted earnings per share are calculated by dividing net income by the weighted average number of outstanding shares which are 1,500 million shares at the year end.

## 21. Zakat

Zakat assessments up to and for the year ended December 31, 2010 have been finalized. The estimated Zakat for the year ended December 31, 2011 amounted to SAR 185 million in addition to a total amount of SAR 607 million related to prior years which will be deducted from the future dividends to shareholders ( SAR 0.53 per share).

## 22. Cash and cash equivalents

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

	2011	2010
	SAR'000	SAR'000
Cash in hand	359,352	159,300
Balances with SAMA excluding statutory deposit	49,951	3,939
Due from banks and other financial institutions maturing within ninety days of acquisition	75,994	1,160,819
<b>Total</b>	<b>485,297</b>	<b>1,324,058</b>

## 23. Operating Segments

Operating segments are identified on the basis of internal reports about activities of the Bank that are regularly reviewed by the chief operating decision makers, comprises CEO as well as the Assets and Liabilities Committee, in order to allocate resources to the segments and to assess its performance.

The Bank's primary business is conducted in Saudi Arabia. Transactions between the operating segments are on terms as approved by the management. Majority of the segment assets and liabilities comprise operating assets and liabilities.

The Bank's reportable segments are as follows:

**a) Retail banking**

Financing, Deposit and other products/services for individuals and small to medium sized businesses.

**b) Corporate banking**

Financing, Deposit and other products and services for corporate and institutional customers.

**c) Treasury**

Murabahas with banks, investments and treasury services.

**d) Investment and brokerage**

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

**e) Others**

Includes head office (as custodian of capital), assets, liabilities and expenses in common use which do not constitute a separately reportable segment.

Profit is charged or credited to operating segments using internally developed Fund Transfer Pricing (FTP) rates which approximate the marginal cost of funds.

Following is an analysis of the Bank's assets, liabilities, income and results by operating segments:

2011	SAR'000					
	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
<b>Total assets</b>	<b>4,772,439</b>	<b>20,997,338</b>	<b>8,151,008</b>	<b>282,420</b>	<b>2,580,161</b>	<b>36,783,366</b>
<b>Total liabilities</b>	<b>10,226,979</b>	<b>3,558,191</b>	<b>6,541,733</b>	<b>108,739</b>	<b>453,703</b>	<b>20,889,345</b>
Net income from investments and financing	245,139	457,557	192,179	374	216,317	1,111,566
Fees from banking services and other income	28,256	216,713	16,465	12,879	2,390	276,703
<b>Total operating income</b>	<b>273,395</b>	<b>674,270</b>	<b>208,644</b>	<b>13,253</b>	<b>218,707</b>	<b>1,388,269</b>
Charge for Impairment on financing	25,921	98,778	-	-	-	124,699
Depreciation and amortization	28,362	-	-	-	95,384	123,746
Other operating expenses	244,792	37,729	15,803	35,667	374,499	708,490
<b>Total operating expenses</b>	<b>299,075</b>	<b>136,507</b>	<b>15,803</b>	<b>35,667</b>	<b>469,883</b>	<b>956,935</b>
<b>Net income / (loss)</b>	<b>(25,680)</b>	<b>537,763</b>	<b>192,841</b>	<b>(22,414)</b>	<b>(251,176)</b>	<b>431,334</b>

2010	SAR'000					
	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
Total assets	2,031,326	13,795,070	8,649,585	275,836	1,796,920	26,548,737
Total liabilities	4,378,043	1,653,965	4,732,801	82,165	201,211	11,048,185
Net income from investments and financing	42,477	215,709	166,294	535	100,128	525,143
Fees from banking services and other income	11,148	117,197	3,107	1,730	3,895	137,077
Total operating income	53,625	332,906	169,401	2,265	104,023	662,220
Charge for Impairment on financing	3,000	-	-	-	-	3,000
Depreciation and amortization	16,789	-	-	-	75,218	92,007
Other operating expenses	169,151	25,622	13,449	31,673	312,118	552,013
Total operating expenses	188,940	25,622	13,449	31,673	387,336	647,020
Net income / (loss)	(135,315)	307,284	155,952	(29,408)	(283,313)	15,200

The Bank's credit exposure by operating segments is as follows:

2011	SAR'000					
	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
On Balance Sheet assets	4,250,060	20,997,338	8,151,008	276,532	54,335	33,729,273
Commitments and contingencies	-	7,839,105	-	-	-	7,839,105
<b>Total</b>	<b>4,250,060</b>	<b>28,836,443</b>	<b>8,151,008</b>	<b>276,532</b>	<b>54,335</b>	<b>41,568,378</b>

2010	SAR'000					
	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
On Balance Sheet assets	1,775,173	13,795,070	8,649,585	274,828	23,692	24,518,348
Commitments and contingencies	-	5,002,911	-	-	-	5,002,911
<b>Total</b>	<b>1,775,173</b>	<b>18,797,981</b>	<b>8,649,585</b>	<b>274,828</b>	<b>23,692</b>	<b>29,521,259</b>

Credit exposure comprises the carrying value of balance sheet assets, excluding cash, property and equipment, and other assets. The credit equivalent value of commitments and contingencies are included in credit exposure.

## 24. Credit risk

Credit risk is the most significant risk for the Bank's business. It is defined as the risk that counterparty will fail to meet its obligations to the Bank and, therefore, will result in a financial loss for the Bank. While Credit exposures arise principally from funded exposure including investments, there are also credit risk in off-balance sheet financial instruments, such as letters of credit/acceptances, letters of guarantee, and other forms of financial commitments.

The Bank actively manages its credit risk exposure through the establishment of Credit Risk Policies which provide guidance, among others, on target market, risk acceptance criteria, minimum disclosure from customers, standard due diligence process, approval process/review, documentation, concentration limits, and day to day account management and problem recognition/remedial action. For the Corporate banking business, an internal rating system based on Moody's KMV is used to calculate the obligor risk rating and the probability of default of each corporate customer. For financial institution exposure, probability of default is typically based on external rating.

To ensure proper check and balance of generating business and taking on credit risks, the bank has an independent Risk Management Group (RMG) led by a Chief Risk Officer (CRO), tasked with the responsibility of implementing, reviewing and safeguarding the Credit and other Risk Policies, financing utilization and its relating documentation in addition to the responsibility of following up any credit defaults that may occur in the customers financing.

Analysis of investments by counter-party is provided in note (6). For details of the composition of financing refer to note (7). For commitments and contingencies refer to note (16).

#### 24.1 Geographical concentration of financial assets with credit risk exposure, financial liabilities, commitments and contingencies.

2011	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
<b>Financial assets</b>					
Cash & balances with SAMA	1,412,781	-	-	-	1,412,781
Due from banks and other financial institutions	649,975	2,388,446	937,504	27,403	4,003,328
Investments	3,344,278	-	84,003	-	3,428,281
Financing, net	25,258,534	-	-	-	25,258,534
Other assets	1,238,878	-	-	-	1,238,878
<b>Total financial assets</b>	<b>31,904,446</b>	<b>2,388,446</b>	<b>1,021,507</b>	<b>27,403</b>	<b>35,341,802</b>
<b>Financial liabilities</b>					
Due to banks and other financial institutions	1,146,000	1,110,000	186,876	-	2,442,876
Customers' deposits	17,776,283	-	-	-	17,776,283
Other liabilities	670,185	-	-	-	670,185
<b>Total financial liabilities</b>	<b>19,592,468</b>	<b>1,110,000</b>	<b>186,876</b>	<b>-</b>	<b>20,889,344</b>
<b>Commitments and contingencies</b>	<b>7,839,105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,839,105</b>
<b>Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies</b>	<b>2,607,645</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,607,645</b>

2010	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash & balances with SAMA	656,905	-	-	-	656,905
Due from banks and other financial institutions	2,306,750	3,054,297	437,847	4,423	5,803,317
Investments	2,623,589	-	-	-	2,623,589
Financing, net	15,593,250	-	-	-	15,593,250
Other assets	616,948	-	-	-	616,948
<b>Total financial assets</b>	<b>21,797,442</b>	<b>3,054,297</b>	<b>437,847</b>	<b>4,423</b>	<b>25,294,009</b>
Financial liabilities					
Due to banks and other financial institutions	2,254,016	-	-	-	2,254,016
Customers' deposits	8,315,878	-	-	-	8,315,878
Other liabilities	478,291	-	-	-	478,291
<b>Total financial liabilities</b>	<b>11,048,185</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,048,185</b>
Commitments and contingencies	5,002,911	-	-	-	5,002,911
Maximum credit exposure (stated at credit equivalent amounts) of Commitments and contingencies	2,165,096	-	-	-	2,165,096

**24.2 The distributions by geographical concentration of impaired financing and allowances for impairment on financing are as follows:**

2011	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non Performing financing, net	<b>10,134</b>	-	-	-	<b>10,134</b>
Allowances for impairment on financing	<b>127,699</b>	-	-	-	<b>127,699</b>

2010	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non Performing financing, net	-	-	-	-	-
Allowances for impairment on financing	3,000	-	-	-	3,000

## 25. Market risk

Market risk is the risk that the fair value or the future cash flows of the financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices. The bank classifies exposures to market risks into either trading or non-trading (or banking book).

### i) Market Risk – Trading Book

The bank holds an insignificant market risk on its trading book position of equities in local currency which is regularly marked to market and losses or gains on equity prices are taken directly into profit and loss.

### ii) Market Risk – Non Trading Book

Market risks on its non-trading book mainly arise from profit rate risk and to a very minor extent from currency risks. It also faces price risks on those securities held as “available for sale.”

### a) Profit Rate Risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. While the bank cannot enter into normal profit rate hedging instruments for its commodity based financing (Bai-ajel, Murabaha, Mudaraba), Treasury already imputes the funding costs based on the yield curve and the margins are also adjusted to account for the long term duration of the financing.

#### Yield sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on marginal costs of funds.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2011	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	1,412,781	1,412,781
Due from banks and other financial institutions	403,003	2,233,150	1,339,772	-	27,403	4,003,328
Investment	1,125,391	1,911,390	-	334,000	57,500	3,428,281
Financing, net	2,522,225	2,655,514	11,226,129	8,854,666	-	25,258,534
Property and equipment net	-	-	-	-	1,379,245	1,379,245
Other assets	-	-	-	-	1,301,197	1,301,197
<b>Total assets</b>	<b>4,050,619</b>	<b>6,800,054</b>	<b>12,565,901</b>	<b>9,188,666</b>	<b>4,178,126</b>	<b>36,783,366</b>
<b>Liabilities &amp; shareholders' equity</b>						
Due to banks and other financial institutions	2,235,000	-	-	-	207,876	2,442,876
Customer deposits	1,485,473	6,044,622	-	-	10,246,189	17,776,284
Other liabilities	-	-	-	-	670,185	670,185
Shareholders' equity	-	-	-	-	15,894,021	15,894,021
<b>Total liabilities &amp; shareholders' equity</b>	<b>3,720,473</b>	<b>6,044,622</b>	<b>-</b>	<b>-</b>	<b>27,018,271</b>	<b>36,783,366</b>
Yield sensitivity - On statement of financial position	330,146	755,432	12,565,901	9,188,666	(22,840,145)	-
Yield sensitivity - Off statement of financial position	2,568,023	3,142,927	2,127,995	160	-	7,839,105
<b>Total Yield sensitivity gap</b>	<b>2,898,169</b>	<b>3,898,359</b>	<b>14,693,896</b>	<b>9,188,826</b>		
<b>Cumulative Yield sensitivity gap</b>	<b>2,898,169</b>	<b>6,796,528</b>	<b>21,490,424</b>	<b>30,679,250</b>		



2010	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	656,905	656,905
Due from banks and other financial institutions	3,071,047	1,304,333	1,356,978	-	70,959	5,803,317
Investment	2,549,776	73,813	-	-	-	2,623,589
Financing, net	1,255,039	1,576,727	7,494,623	5,266,861	-	15,593,250
Property and equipment, net	-	-	-	-	1,193,195	1,193,195
Other assets	-	-	-	-	678,481	678,481
<b>Total assets</b>	<b>6,875,862</b>	<b>2,954,873</b>	<b>8,851,601</b>	<b>5,266,861</b>	<b>2,599,540</b>	<b>26,548,737</b>
<b>Liabilities &amp; shareholders' equity</b>						
Due to banks and other financial institutions	2,254,016	-	-	-	-	2,254,016
Customer deposits	1,253,246	2,580,055	399,559	-	4,083,018	8,315,878
Other liabilities	-	-	-	-	478,291	478,291
Shareholders' equity	-	-	-	-	15,500,552	15,500,552
<b>Total liabilities &amp; shareholders' equity</b>	<b>3,507,262</b>	<b>2,580,055</b>	<b>399,559</b>	<b>-</b>	<b>20,061,861</b>	<b>26,548,737</b>
Yield sensitivity - On statement of financial position	3,368,600	374,818	8,452,042	5,266,861	(17,462,321)	-
Yield sensitivity - Off statement of financial position	505,687	690,406	3,806,818	-	-	5,002,911
<b>Total Yield sensitivity gap</b>	<b>3,874,287</b>	<b>1,065,224</b>	<b>12,258,860</b>	<b>5,266,861</b>		
<b>Cumulative Yield sensitivity gap</b>	<b>3,874,287</b>	<b>4,939,511</b>	<b>17,198,371</b>	<b>22,465,232</b>		

#### b) Currency Risk

Represents the risks of change in value of financial instruments due to changes in foreign exchange rates. The Treasury Policy has set limits on positions by currencies. However, the Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals and to a smaller extent in United States Dollars (USD) or in USD pegged currencies such as Bahraini Dinar and Qatari Riyal.

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

	2011	2010
	SAR'000	SAR'000
<b>Assets</b>		
Cash & balances with SAMA	12,434	9,645
Due from banks and other financial institutions	3,071,459	2,486,449
Investments	83,988	14
Financing	130,063	63,585
Other assets	29,420	8,016
<b>Total currency risk on assets</b>	<b>3,327,364</b>	<b>2,567,709</b>
<b>Liabilities</b>		
Due to banks and other financial institutions	186,876	-
Customers' deposits	2,243,046	413,625
Other liabilities	328,086	141,713
<b>Total currency risk on liabilities</b>	<b>2,758,008</b>	<b>555,338</b>

The table below shows the currencies to which the Bank has a net significant exposure as at December 31

	2011	2010
	SAR'000	SAR'000
USD	(201,718)	1,158,857
Euro	(694)	272
UAE Dirham	(1,468)	1,027
BHD	615,479	270,806
QAR	157,640	579,099
Others	117	2,310
<b>Total</b>	<b>569,356</b>	<b>2,012,371</b>

### c) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities. The Bank's portfolio of securities available for sale is regularly marked to market and +/- changes, if any, are taken into the bank's equity.

## 26. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. 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 into consideration, maintaining an adequate balance of cash and cash equivalents.

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 reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the historical experience.

The amounts disclosed in the table (a) below are contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Management monitors the daily position and the maturity profile to ensure that adequate liquidity is maintained. All liquidity policies and procedures are covered by the Treasury Policies which are subject to review and approval by the Asset Liability Committee (ALCO).

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7 % of total demand deposits and 4 % of customers' time investments.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20 % of its deposit liabilities, 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 arrangement facilities with SAMA.

**a) Analysis of financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations. As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appeared in the consolidated statement of financial position.

2011	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	2,444,398	-	-	-	-	2,444,398
Customers' deposits	11,743,273	6,105,930	-	-	-	17,849,203
Other liabilities	-	-	-	-	670,185	670,185
Shareholders' Equity	-	-	-	-	15,894,021	15,894,021
<b>Total Liabilities and shareholders' equity</b>	<b>14,187,671</b>	<b>6,105,930</b>	<b>-</b>	<b>-</b>	<b>16,564,206</b>	<b>36,857,807</b>

2010	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	1,549,404	1,052,102	-	-	-	2,601,506
Customers' deposits	4,248,402	2,250,769	1,885,089	-	-	8,384,260
Other liabilities	-	-	-	-	455,572	455,572
Shareholders' Equity	-	-	-	-	15,500,552	15,500,552
<b>Total Liabilities and shareholders' equity</b>	<b>5,797,806</b>	<b>3,302,871</b>	<b>1,885,089</b>	<b>-</b>	<b>15,956,124</b>	<b>26,941,890</b>

**b) The tables below show the contractual maturity profile of the assets and liabilities:**

The contractual maturities of assets and liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date.

2011	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash & balances with SAMA	1,412,781	-	-	-	-	1,412,781
Due from banks and other financial institutions	430,406	2,233,150	1,339,772	-	-	4,003,328
Investments	1,125,391	1,911,390	-	334,000	57,500	3,428,281
Financing, net	2,522,225	2,655,514	11,226,129	8,854,666	-	25,258,534
Property and equipment, net	-	-	-	-	1,379,245	1,379,245
Other assets	-	-	-	-	1,301,197	1,301,197
<b>Total</b>	<b>5,490,803</b>	<b>6,800,054</b>	<b>12,565,901</b>	<b>9,188,666</b>	<b>2,737,942</b>	<b>36,783,366</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	2,442,876	-	-	-	-	2,442,876
Customers' deposits	11,731,662	6,044,622	-	-	-	17,776,284
Other liabilities	-	-	-	-	670,185	670,185
Shareholders' Equity	-	-	-	-	15,894,021	15,894,021
<b>Total</b>	<b>14,174,538</b>	<b>6,044,622</b>	<b>-</b>	<b>-</b>	<b>16,564,206</b>	<b>36,783,366</b>
Commitments & contingencies	2,568,023	3,142,927	2,127,995	160	-	7,839,105

2010	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash & balances with SAMA	656,905	-	-	-	-	656,905
Due from banks and other financial institutions	3,142,006	1,304,333	1,356,978	-	-	5,803,317
Investments	2,549,776	73,813	-	-	-	2,623,589
Financing, net	1,255,039	1,576,727	7,494,623	5,266,861	-	15,593,250
Property and equipment, net	-	-	-	-	1,193,195	1,193,195
Other assets	-	-	-	-	678,481	678,481
<b>Total</b>	<b>7,603,726</b>	<b>2,954,873</b>	<b>8,851,601</b>	<b>5,266,861</b>	<b>1,871,676</b>	<b>26,548,737</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	2,254,016	-	-	-	-	2,254,016
Customers' deposits	5,336,264	2,580,055	399,559	-	-	8,315,878
Other liabilities	-	-	-	-	478,291	478,291
Shareholders' Equity	-	-	-	-	15,500,552	15,500,552
<b>Total</b>	<b>7,590,280</b>	<b>2,580,055</b>	<b>399,559</b>	<b>-</b>	<b>15,978,843</b>	<b>26,548,737</b>
Commitments & contingencies	505,687	690,406	3,806,818	-	-	5,002,911

## 27. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the bank and from almost any activity.

The bank has an Operational Risk Team under the independent Risk Management Group which is tasked with monitoring and controlling the Operational Risk issues of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is under establishment. In addition, the Bank has implemented a Disaster Recovery Continuity project and is in the process of implementation of Disaster Recovery Planning framework for its IT systems. This will reduce the potential Operational risk.

## 28. Sharia'h Non-compliance Risk

Being an Islamic bank, the Bank is exposed to the risk of Sharia'h non-compliance. In order to monitor such risks the Bank has established a Sharia'h Board and a Sharia'h Compliance Audit Unit.

## 29. Reputational Risk

Reputational risk covers the potential adverse effects resulting from negative publicity about the Bank's products, services, competence, integrity and reliability.

As an Islamic bank, one of the major sources of Reputational risk is Sharia'h non-compliance. The other sources of negative publicity could be major frauds, customer complaints, regulatory actions, negative perceptions about bank's financial condition. The Bank has put in place controls around reputation risk in order to mitigate and avoid such risks.

## 30. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates. The estimated fair values of the on-balance sheet financial instruments are not significantly different from their respective carrying values.

## 31. Related party balances and transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

(i) Balances as at December 31, resulting from such transactions included in the consolidated financial statements are as follows:

Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates	2011	2010
	SAR'000	SAR'000
Financing	203,844	209,530
Advances to key management personnel	-	337
Customers' deposits	2,819,880	2,204,687
End of service benefits	3,487	2,586
Investments	57,500	-
Mutual funds managed by the Bank	51,319	50,000

(ii) Income and expenses pertaining to transactions with related parties included in the consolidated statement of comprehensive income are as follows:

	2011	2010
	SAR'000	SAR'000
Income on financing	12,167	6,447
Return on time investments	24,683	7,432
Directors' remuneration	2,972	3,193

The advances and expenses related to executives are in line with the normal employment terms.

(iii) The total amount of compensation paid to key management personnel during the year is as follows:

	2011	2010
	SAR'000	SAR'000
Short-term employees benefits	36,248	30,980
End of service benefits	901	1,283

### 32. 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 holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

Particulars	2011	2010
	SAR'000	SAR'000
Credit Risk Weighted Assets	32,345,614	17,399,032
Operational Risk Weighted Assets	1,733,049	1,334,369
Market Risk Weighted Assets	2,216,522	2,059,997
<b>Total Pillar-I Risk Weighted Assets</b>	<b>36,295,185</b>	<b>20,793,398</b>
Tier I Capital	15,897,254	15,620,541
Tier II Capital	118,699	3,006
<b>Total Tier I &amp; II Capital</b>	<b>16,015,953</b>	<b>15,623,547</b>
Capital Adequacy Ratio %		
Tier I ratio	44%	75%
Tier I + Tier II ratio	44%	75%

### 33. BASEL II PILLAR 3 Disclosure

Certain additional quantitative and qualitative disclosures are required under Basel II Pillar 3. These disclosures will be made available to the public on the Bank's website ([www.alinma.com](http://www.alinma.com)) within 60 business days after December 31, 2011 as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

### 34. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of two funds namely Saudi Riyal Liquidity Fund and Saudi Equity Fund with total assets under management of SAR 76.4 million.

### 35. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance by the banks effective from accounting years beginning on or after 01 January 2012.



Standard, and amendments	Effective date	Brief description of changes
Amendments to IAS 1 "Presentation of Financial Statements"	July 01, 2012	The amendments require to present separately the items of other comprehensive income that would be reclassified to income statements in the future if certain condition are met from those that would never be reclassified to income statement.
IFRS 9 "Financial Instruments"	January 01, 2015	IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
IFRS 10 "Consolidated Financial Statements"	January 01, 2013	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.
IFRS 13 "Fair Value Measurement"	January 01, 2013	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines, establishes a framework and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

Other than IFRS 9, the amendment is not likely to have any material impact on the Bank's consolidated financial statements except for certain additional disclosures. The Bank will be assessing the implications of IFRS 9 in due course.

### 36. Comparative figures

Certain prior year figures have been reclassified to conform with the current year presentation.

### 37. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Bank's Board of Directors on 20 Rabi Awal 1433 H (corresponding to February 12, 2012).

Basel II Pillar  
3- Qualitative  
Disclosure



## Basel II Pillar 3- Qualitative Disclosure

### 1. Scope

This qualitative disclosure applies to Alinma bank, Saudi Arabia. Alinma bank is a Saudi joint stock company formed in accordance with Royal Decree No. M/15 dated 28/2/1427H (28/3/2006) and Ministerial Resolution No. 42 dated 27/2/1427H (27/3/2006). The share capital of the bank is SAR 15 billion consisting of 1.5 billion shares with a nominal value of SAR 10 per share.

The notes presented in the following sections will provide information about the bank's exposure to risks, the bank's risk management framework, objectives, governance and process, along with the details on bank's capital adequacy.

The Bank is compliant to the Basel II norms having submitted the SAMA returns under standardized approach for credit and market risks and basic indicator approach for operational risk. Bank submitted to SAMA last February 2011 its first Internal Capital Adequacy Assessment Process (ICAAP) report based on December 31, 2010 audited numbers and is currently in the process of submitting ICAAP based on December 31, 2011 audited numbers.

### 2. Risk Management Framework

To manage various risks being faced by the bank due to its business drivers, Board of Directors and Management determined and selected the levels of risks to which the bank can be exposed in line with the strategies set forth and the bank's risk management capabilities. Responsibilities have been delegated to the Board Committees, Asset Liability Committee (ALCO), Risk Management Group, Risk Management Committee, ICAAP Task Force, BASEL department and various lines of business.

All banking activities are performed and developed within a framework approved by the Board and Bank's committees as defined in related policies and principles, to ensure adequate governance. During the fiscal year 2011 the Bank enhanced and strengthened the enterprise risk management framework. As part of the overall risk management framework, economic capital planning and Risk Adjusted Return on Capital (RAROC) framework are being developed.

#### Risk Management Philosophy

The bank's risk management objective is to be partner centric with appropriate controls and effective governance in place to increase enterprise value and judicious allocation of capital, increasing return on capital and improving consistency and quality of earnings. The bank assesses market and service strategies based on a thorough understanding of the financial impacts of those strategies, including the exposure to risk and/or loss, and the utilization of risk capital required to implement those strategies. To enable this philosophy, the bank has implemented strategic risk management framework, which aligns with the business and the risk management objectives.

Decisions involving risk are driven by evaluating the profit potential against the risk to be accepted. Fundamental to this evaluation is the requirement that risk be identified, quantified and mitigated where it can be.

The bank recognizes the importance of statutory and regulatory requirements and guidelines and complies with their guidance in all risk decisions.

The bank is committed to adhere to the highest standards of Shariah compliant principles in all its activities and dealings.

#### Setting Risk Appetite

The Board of Directors sets the bank's risk appetite and risk capital. Risk Appetite is the expression of the level of risk the bank is willing to accept in pursuit of value. It results from the bank's definition of its target for capital quality and associated credit and market ratings. Risk capital is the quantification of the risk appetite and is aligned to the bank's solvency standard.

The Risk Appetite framework is in place and an annual risk appetite workshop is conducted with the concerned senior executives of the bank by Risk management group to establish the bank's risk appetite in support of the strategy and business model. The risk appetite is duly approved by the audit committee and the board as part of Internal Capital Adequacy Assessment Process (ICAAP).

#### Allocating Capital

We plan and allocate required capital to business units and to new business opportunities based largely on their expected risk-adjusted returns.

#### Setting Risk Limits

Bank's management has established limits for the bank's risk activities subject to review and concurrence of the Board of Directors. Limits define the boundaries of acceptable risk for various business activities based on the bank's risk appetite. During the fiscal year 2011, bank has further strengthened the Risk Limits framework through successful implementation of enterprise risk management framework initiative.

#### Establishing Risk Policies

During the year Bank has started several Enterprise Risk Management initiatives and hired consultants to strengthen further its Enterprise Wide Risk Management Framework. The Bank is in the process of implementing the updated risk management policies for credit, market, operational, liquidity, anti-fraud, Pillar II compliance and Stress Testing through ERM-BASEL program.

## 3. Risk Governance Structure

### Committees

The Board of Directors and Management are accountable for the oversight and management of risks. This role is discharged collectively through their membership of committees and individually through the business or support functions assigned to them and for the area where they have governance accountability.

- The Board's Executive Committee has the delegated responsibility and authority from the Board of Directors for managing banks' certain risks defined in the charter including approval of financing above the authority of management.

- Currently Risk Management Committee (RMC) is chaired by Chief Risk Officer and has the principal responsibility for assuring implementation of sound principles, policies, procedures and practices for the management of key risks under the bank's enterprise-wide risk framework and in compliance with BASEL requirements and SAMA guidelines.
- The Credit Committee, whose membership is comprised of all the authorized lending officers, acts individually and independently as credit committee members of the bank. The primary function of the Credit Committee is to manage the bank's overall credit portfolio in line with the established credit policy and procedures, limits and risk appetite; and to technically, independently and prudently evaluate and approve, within its delegated approval authority, all credit transactions, programs, models and credit-related products and services.
- ICAAP Task Force has been constituted to prepare and co-ordinate preparation of ICAAP document and ICAAP related policies, models and framework. The task force has successfully prepared the ICAAP document for FY 2011 to be delivered to SAMA. Task force will continue to refine the pillar 2 risk measurement.
- Additionally, the independent supervision of risk management activities of the bank is performed by Internal Audit according to the Audit plan supervised by the Audit Committee of the Board of Directors.
- The management of bank's balance sheet including the management of liquidity and funding, capital and liquidity adequacy as well as market and liquidity risk is delegated to Asset Liability Committee (ALCO). The Liquidity Risk Management Framework is owned by the ALCO members. Managing liquidity is a key ALCO responsibility and that a fine balance is always maintained between keeping a portfolio of high quality liquid assets versus maximizing returns by deploying assets on higher yielding financing and other investments. Cognizant of the impetus of the BASEL III regime, the Risk group presents on a weekly basis, the bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to Treasury and to ALCO members along with the details on the investment options available to Treasury and other lines of business to keep a portion of the bank's liquidity in "highly liquid assets."

### **Risk Management Group**

The bank has an independent risk management group supervised by Chief Risk Officer (CRO). The risk management group is responsible for evaluating the level of risk being faced by the bank and as well as in determining recognized best practices to manage such risks.

Along with the credit functions, the group addresses all types of risks including credit risk, equity investment risk, market risk, liquidity risk, profit rate risk and operational risk along with strategic and reputational risks. Beyond those, the bank may recognize and manage its own unique type of risk which is corresponding to the nature of the bank's businesses and activities.

The bank's Risk Management Group adheres to guidelines and requirements issued by regulatory authorities such as Saudi Arabian Monetary Agency (SAMA) and Saudi Arabian Capital Market Authority (CMA). It also follows international guidelines & regulations set forth by BASEL Committee on banking Supervision (BCBS) and Islamic Financial Services Board (IFSB) where the bank may apply stricter regulations as needed.

The principal activities, responsibilities and authorities of Risk Management Group are:

- Establishing, maintaining and periodic review of the strategic risk policy, credit risk policy, market risk policy, liquidity risk policy, operational risk policy, ICAAP Policy and Stress Testing Policy.
- Establishing the Risk governance framework and review system for effective implementation and monitoring of enterprise risk policy.
- Reviewing and approving business processes and procedures to assure effective implementation of those Policies.
- Making sure that the Bank will adhere and comply with all BASEL program related regulatory guidelines and reporting.
- Establishing of risk appetite, risk tolerance and risk limits framework for credit, market and operational risks and the delegation of approval authorities to manage these risks.
- Managing the Business Continuity Planning (BCP) and management along with associated policies and procedures

### **4. Risk Management Process**

Bank has established a sound process for executing all elements of risk management in a proactive manner including risk identification, quantification, mitigation, monitoring, reporting and control.

#### **Credit Risk**

Credit risk is the potential that a bank obligor or counterparty will fail to meet its obligations in accordance with agreed terms. It also includes the risk arising in the settlement and clearing transactions. The principal bank units responsible for taking credit risk are:

- Corporate Banking Group
- Retail Banking Group
- Treasury Group

All credit risk taking units have developed their respective policies and guidelines governing their credit risk taking functions which are contained in respective business risk policies and frameworks. In addition the bank is in the process of establishing enterprise wide credit risk policy, procedures, limits, models, reporting and controls. All Risk Policies are reviewed, approved and monitored by Independent Risk Management. Approvals of risk transactions also require the sign-off of independent Risk Management Group.

#### **Market risk**

Market risk is the risk that the fair value of the future cash flows of a portfolio or a financial instrument will decrease due to changes in market variables such as equity stock prices, profit rates, foreign exchange rates, and commodity prices. For its banking book, market risks arise from profit rate risk and to a minor extent from foreign exchange risks. It also faces equity price risks on those securities it carries which are available for sale and for an insignificant portfolio of equity trading book.

### **Profit Rate Risk**

The risk that the future cash flows of an investment will change due to a change in the absolute level of profit rates, in the spread between two rates, in the shape of the yield curve or in any other profit rate relationship. This risk is mitigated by matching the tenor of the investment with the sources of the funding and by increasing the margin for longer tenor investments. Under its business model, the bank cannot enter into conventional methods of hedging profit rate risks.

### **Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. 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 into consideration, maintaining an adequate balance of cash and cash equivalents.

Management monitors the daily position and the maturity profile to ensure that adequate liquidity is maintained. All liquidity policies and procedures are covered by the Treasury Policies which are subject to review and approval by the Asset Liability Committee (ALCO).

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

### **Equity Price Risk**

Equity price risk refers to the risk of decrease in fair values of equities. The Bank's portfolio of securities available for sale and its insignificant portfolio of equities for trading are regularly marked to market and +/- changes, if any, are taken into the bank's equity/income.

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the bank and from almost any activity.

The bank has an Operational Risk Team under the independent Risk Management Group which is tasked with monitoring and controlling the Operational Risk issues of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is under establishment. In addition, the Bank has implemented a Disaster Recovery Continuity project and is in the process of implementation of Disaster Recovery Planning framework for its IT systems. This will reduce the potential Operational risk.

### **Legal Risk**

Legal risk is the risk that may arise as a result from contracts, lawsuits or legal court orders. Legal Group is responsible for managing legal risk. Bank has established processes to manage and mitigate legal risks.

### **Reputational Risk**

Reputational risk is the risk arising from negative public opinion which will affect the bank's ability to establish new relationships or services or continue servicing existing relationships. Marketing Group is responsible for managing reputation risk. As a part of ICAAP compliance, the bank has analyzed and stress tested its financials for reputation risk.

### **Other Risks**

Other risks like, arising out of non compliance to Shariah guidelines are monitored through Risk Management Group. As part of ICAAP, the bank has stress tested its financials for non compliance risk.

## **5. Capital and Liquidity Adequacy**

The bank is required to adhere to regulatory and economic capital regime, the BASEL Accord as adapted to local conditions by Saudi Arabian Monetary Agency (SAMA).

The bank has a process for calculating its overall capital and Liquidity adequacy commensurate with its risk profile, risk appetite and strategy. The capital and liquidity adequacy is maintained above the minimum regulatory requirements which are reviewed and managed by the bank's executive management and ALCO to ensure its compliance to SAMA regulations.

For Capital Adequacy calculations, the bank is using the Standardized Approach for credit and market risk, and basic indicator approach for operational risk, as part of BASEL II regime implementation as adapted by SAMA.

## **6. Risk adjusted Compensation**

Based on the SAMA guidelines, Bank is committed to implement the risk adjusted compensation which is aimed at the Senior Executives of the Bank who are directly responsible for the performance (profit and loss making) of the bank. Such compensation while performance based, will provide for a partial deferral of the variable compensation to account for potential delayed impact of some decisions which may cause reversal of prior years' profits or losses in the future due to prior years' decisions.

## **7. Road Ahead**

Bank is committed to continue refining the enterprise risk management practices and institutionalize risk awareness culture across all lines of business. It will also embrace those BASEL III regulatory guidelines which will strengthen its balance sheet and improve the quality and stability of its earnings.



# Alinma Bank Branches and ATMs





## Alinma Bank Branches

The following are Alinma locations that are operating as of printing of this report:

### Riyadh

Branch	Area	Street
Head Office	Al Olaya	King Fahad
Dharat Al Badiyah (Gentlemen & Ladies)	Dharat Al-Badiyah	Al-Madinah Al-Munawara
Takhassusi (Gentlemen & Ladies)	Al Olaya	Takhassusi
Al Malaz	Al Malaz	Salah Al Deen Al-Ayoubi (Siteen)
Al Suwaidi (Gentlemen & Ladies)	Al Suwaidi	Al-Suwaidi
Al Rabwah (Gentlemen & Ladies)	Al Rabwah	Omar Bin Abdulaziz
Al Nahda (Gentlemen & Ladies)	Al Nahda	Prince Bandar Ibn Abdulaziz
Al Aziziyah (Gentlemen & Ladies)	Al Aziziyah	Al Nasr
Al Ghadeer (Gentlemen & Ladies)	Al Ghadeer	King Abdulaziz
Al Nassem	Al Nassem	Hassan Bin Thabit
Rayaan (Gentlemen & Ladies)	Rayaan	Imam Shafi
Al Muraba'a	Al Muraba'a	Faisal Bin Turkey Ibn Abdulaziz
Al Amal (Batha)	Al Amal	Assad Ibn Alforat
Al Rawabi (Gentlemen & Ladies)	Al Rawabi	Imam Saad Bin Abdulrahman
Sales Center	Al Mohamdiyyah	Takhassusi

### Dariyyah

Branch	Area	Street
Dariyyah	Al Khaldiya	King Abdulaziz

### Kharj

Branch	Area	Street
Kharj (Gentlemen & Ladies)	Al Nahda	King Fahad

### Jeddah

Branch	Area	Street
Al Rabwah (Gentlemen & Ladies)	Al Rabwah	King Fahad (Siteen)
Al Rawdah (Gentlemen & Ladies)	Al-Rawdah	Sari
Al Balad	Al Balad	King Abdulaziz
Al Rehab (Gentlemen & Ladies)	Al Rehab	Prince Mohammad Bin Abdulaziz (Tahliyah)
Al Safa (Gentlemen & Ladies)	Al Safa	Prince Miteb
Al Marwa (Gentlemen & Ladies)	Al Marwa	Hira'a

### Makkah

Branch	Area	Street
Makkah (Gentlemen & Ladies)	Al Aziziyah	Al Aziziyah - Al-Aql Tower

### Taif

Branch	Area	Street
Taif (Gentlemen & Ladies)	Moeashi	Al Jaish

### Madinah

Branch	Area	Street
Al Madinah (Gentlemen & Ladies)	Al Khaledya	Ring Road near Al Naghi Agency

## Alinma Bank Branches

### Dammam

Branch	Area	Street
Dammam Branch (Gentlemen & Ladies)	Al Tubaishi	Prince Mohammad Bin Fahad (First Street)
Rayaan Branch (Gentlemen & Ladies)	Rayaan	Ali Bin Abi Talib
Uhod (Gentlemen & Ladies)	Uhod	King Fahad

### Khobar

Branch	Area	Street
Al Raka	Al Raka	Dammam – Khobar Coastal Road
Al Samo (Gentlemen & Ladies)	Al Yarmouk	Prince Turki

### Jubail

Branch	Area	Street
Jubail (Gentlemen & Ladies)	Al Fanateer	Al Khamis

### Hafr Al-Batin

Branch	Area	Street
Hafr Al-Batin (Gentlemen & Ladies)	Al Baladiya	King Faisal

### Mubarraz

Branch	Area	Street
Mubarraz (Gentlemen & Ladies)	Al Khars	King Fahad

### Hofouf

Branch	Area	Street
Hofouf	Al Souq	King Abdulaziz

### Abha

Branch	Area	Street
Abha (Gentlemen & Ladies)	Al Sad	Al Hozam Ring Road

### Khamis Mushait

Branch	Area	Street
Khamis Mushait (Gentlemen & Ladies)	Al Rowda	King Khalid near King Fahad Mosque

### Buraidah

Branch	Area	Street
Buraidah (Gentlemen & Ladies)	Al Safra	King Abdullah

### Onaiza

Branch	Area	Street
Onaiza (Gentlemen & Ladies)	Al Ahrafia	Al Zolfi

### Hail

Branch	Area	Street
Hail (Gentlemen & Ladies)	Al Matar	King Abdulaziz

## Arara

Branch	Area	Street
Arar (Gentlemen & Ladies)	Al Rowda	Intersection of King Saud with Prince Abdulaziz Bin Masa'ad

## Najran

Branch	Area	Street
Najran (Gentlemen & Ladies)	Prince Mishal	King Abdulaziz

## Alinma ATMs

The bank has a kingdom-wide network of more than 400 state-of-the-art ATMs. For more information about the bank's branches and ATMs, please visit our website ([www.alinma.com](http://www.alinma.com)) or call the Alinma Phone service at 8001208000.