ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2011

PRICEWATERHOUSECOOPERS ERNST & YOUNG

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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20 Rabi Al Awwal 1433H
12 February 2012

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

PROFESSIONAL LICENCE No. 45
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ALINMA BANK
(A Saudi Joint Stock Company)

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

	Notes	2011 SAR'000	2010 SAR'000
ASSETS			
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
TOTAL ASSETS		**36,783,366**	26,548,737
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
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
TOTAL LIABILITIES		**20,889,345**	11,048,185
SHAREHOLDERS' EQUITY			
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)
TOTAL SHAREHOLDERS' EQUITY		**15,894,021**	15,500,552
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**36,783,366**	26,548,737

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

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ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 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
Total operating income		**1,388,269**	662,220
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
Total operating expenses		**956,935**	647,020
Net income		**431,334**	15,200
Other comprehensive (loss) / income		**(3,244)**	11
Total comprehensive income		**428,090**	15,211
Basic and diluted earnings per share (SAR)	20	**0.29**	0.01

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

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2011 and 2010

SAR'000

2011	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Retained earnings	Treasury shares	Total
Balance at the beginning of the year	13	**15,000,000**	**155,135**	**11**	**465,406**	**(120,000)**	**15,500,552**
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)**
Balance at the end of the year		**15,000,000**	**262,969**	**(3,233)**	**788,906**	**(154,621)**	**15,894,021**

SAR'000

2010	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Retained earnings	Treasury shares	Total
Balance at the beginning of the year	13	15,000,000	151,335	-	454,006	-	15,605,341
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)
Balance at the end of the year		15,000,000	155,135	11	465,406	(120,000)	15,500,552

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

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	Notes	2011 SAR' 000	2010 SAR' 000
OPERATING ACTIVITIES			
Net income		**431,334**	15,200
Adjustments to reconcile net income to net cash used in operating activities			
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
Net (increase)/decrease in operating assets:			
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)
Net increase/(decrease) in operating liabilities:			
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
Net cash used in operating activities		**(479,777)**	(10,323,324)
INVESTING ACTIVITIES			
Acquisition of property and equipment		**(335,656)**	(363,003)
Proceeds from disposal of property and equipment		**11,293**	-
Net cash used in investing activities		**(324,363)**	(363,003)
FINANCING ACTIVITIES			
Purchase of treasury shares		**(34,621)**	(120,000)
Net cash used in financing activities		**(34,621)**	(120,000)
Net decrease in cash and cash equivalents		**(838,761)**	(10,806,327)
Cash and cash equivalents at the beginning of the year		**1,324,058**	12,130,385
Cash and cash equivalents at end of the year	22	**485,297**	1,324,058
Income received from investments and financing		**1,102,006**	492,683
Return paid on time investments		**67,468**	11,876
Supplemental non-cash information			
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 1430 H (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:

i) in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency ("SAMA") and International Financial Reporting Standards (IFRS); and

ii) 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 adopted 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 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 repossessment 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 sukuks 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.

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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 SAR'000	2010 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
Total	**1,412,781**	656,905

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

6. Investments

	Notes	**2011 SAR'000**	2010 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**	-
Total	**6.4**	**3,428,281**	2,623,589

6.1 Available for sale investments

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

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

7. Financing, net (at amortized cost)

SAR'000

2011	**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**
Total	**25,376,099**	**10,134**	**25,386,233**	**(5,766)**	**25,380,467**
Collective provision					**(121,933)**
Financing, net					**25,258,534**

SAR'000

2010	**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
Total	15,596,250	-	15,596,250	-	15,596,250
Collective provision					(3,000)
Financing, net					15,593,250

7.1 Movement in allowance for impairment of financing:

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

2010	Retail	Corporate	Total
			SAR'000
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			3,000
Total			3,000

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 SAR'000	2010 SAR'000
1 - 4	Investment Grade	**13,692,403**	8,896,301
5 - 6	Below Investment Grade	**7,413,265**	4,921,340
7	Watch list	**-**	-
		21,105,668	13,817,641
	Unrated exposure	**4,250,302**	1,771,317
Total		**25,355,970**	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):

			SAR'000
2011	**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	**-**	**-**	**-**
Total	**15,502**	**4,627**	**20,129**

			SAR'000
2010	**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
Total	7,292	-	7,292

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

				SAR'000
2011	**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**
	25,376,099	**10,134**	**(5,766)**	**25,380,467**
Collective provision				**(121,933)**
Financing, net				**25,258,534**

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SAR'000

2010	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
	15,596,250	-	-	15,596,250
Collective provision				(3,000)
Financing, net				15,593,250

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 SAR'000	2010 SAR'000
Neither past due nor impaired	**8,180,834**	6,431,117
Past due but not impaired	**-**	-
Impaired	**-**	-
Total	**8,180,834**	6,431,117

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

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

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8. Property and equipment, net

	SAR'000				
	Land and buildings	**Leasehold improvements**	**Furniture, equipment & vehicles**	**Total 2011**	Total 2010
Cost:					
Balance at beginning of the year	459,568	138,713	765,478	1,363,759	1,000,756
Additions	110,397	53,801	171,458	335,656	363,003
Disposals	-	-	(39,898)	(39,898)	-
Balance at end of the year	569,965	192,514	897,038	1,659,517	1,363,759
Accumulated depreciation:					
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
Net book value-as at December 31, 2011	**564,851**	**157,056**	**657,338**	**1,379,245**	
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 income receivable on:			
Investments		**37,510**	14,529
Financing		**392,025**	154,066
Total		**429,535**	168,595
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
Total		**1,301,197**	678,481

10. Due to banks and other financial institutions

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

11. Customers' deposits

i) Customers' deposits include the following;

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

Other represents cash margins for letter of credits and guarantees

ii) The above includes foreign currency deposits as follows:

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

12. Other liabilities

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

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:

	2011	2010
	Percentage	
Public Pension Agency ("PPA")	**10.7**	10.0
Public Investment Fund ("PIF")	**10.0**	10.0
General Organization for Social Insurance ("GOSI")	**10.0**	10.0
General public and others	**69.3**	70.0
Total	**100**	100

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 collaterized 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:

SAR'000

2011	**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**
Total	**2,568,023**	**3,142,928**	**2,127,994**	**160**	**7,839,105**

SAR'000

2010	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	-	-	-	-	-
Total	**505,687**	**690,405**	**3,806,819**	**-**	**5,002,911**

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

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

17. Income from investments and financing activities, net

	2011 SAR'000	2010 SAR'000
Income from investments and financing:		
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
Total	**1,184,483**	555,506
Return on time investments	**(72,917)**	(30,363)
	1,111,566	**525,143**

18. Fees from banking services, net

	2011 SAR'000	2010 SAR'000
Fee and other banking services income on:		
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	**277,019**	135,194
Fee and other banking services expense on:		
Card services	**(18,905)**	(5,471)
Other fees	**(1,490)**	(1,195)
Total	**256,624**	128,528

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.

SAR'000

2011 Categories of employees	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)	-	-	-	-	-
		347,562	54,904		54,904
Variable compensation accrued in 2011		87,365			
Other employee related benefits		10,642			
Total	1,409	445,569	54,904	-	54,904

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 the 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 SAR'000	2010 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
Total	**485,297**	1,324,058

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**
Total assets	**4,772,439**	**20,997,338**	**8,151,008**	**282,420**	**2,580,161**	**36,783,366**
Total liabilities	**10,226,979**	**3,558,191**	**6,541,733**	**108,739**	**453,703**	**20,889,345**
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**
Total operating income	**273,395**	**674,270**	**208,644**	**13,253**	**218,707**	**1,388,269**
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**
Total operating expenses	**299,075**	**136,507**	**15,803**	**35,667**	**469,883**	**956,935**
Net income / (loss)	**(25,680)**	**537,763**	**192,841**	**(22,414)**	**(251,176)**	**431,334**

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**
Total	**4,250,060**	**28,836,443**	**8,151,008**	**276,532**	**54,335**	**41,568,378**

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**
Total	**1,775,173**	**18,797,981**	**8,649,585**	**274,828**	**23,692**	**29,521,259**

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).

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

	SAR'000				
2011	**Kingdom of Saudi Arabia**	**Other GCC and Middle East**	**Europe**	**Other countries**	**Total**
Financial assets					
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**
Total financial assets	**31,904,446**	**2,388,446**	**1,021,507**	**27,403**	**35,341,802**
Financial liabilities					
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**
Total financial liabilities	**19,592,468**	**1,110,000**	**186,876**	**-**	**20,889,344**
Commitments and contingencies	**7,839,105**	**-**	**-**	**-**	**7,839,105**
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	**2,607,645**	**-**	**-**	**-**	**2,607,645**

	SAR'000				
2010	Kingdom of Saudi Arabia	Other GCC and Middle East	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
Total financial assets	21,797,442	3,054,297	437,847	4,423	25,294,009
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
Total financial liabilities	11,048,185	-	-	-	11,048,185
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	**10,134**	**-**	**-**	**-**	**10,134**
Allowances charge for impairment on financing	**127,699**	**-**	**-**	**-**	**127,699**

2010	**SAR'000**				
	Kingdom of Saudi Arabia	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Non performing financing, net	-	-	-	-	-
Allowances charge 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**
Assets						
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**
Total assets	**4,050,619**	**6,800,054**	**12,565,901**	**9,188,666**	**4,178,126**	**36,783,366**
Liabilities & shareholders' equity						
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**
Total liabilities & shareholders' equity	**3,720,473**	**6,044,622**	**-**	**-**	**27,018,271**	**36,783,366**
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**
Total Yield sensitivity gap	**2,898,169**	**3,898,359**	**14,693,896**	**9,188,826**		
Cumulative Yield sensitivity gap	**2,898,169**	**6,796,528**	**21,490,424**	**30,679,250**		

2010	SAR'000					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
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
Total assets	**6,875,862**	**2,954,873**	**8,851,601**	**5,266,861**	**2,599,540**	**26,548,737**
Liabilities & shareholders' equity						
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
Total liabilities & shareholders' equity	**3,507,262**	**2,580,055**	**399,559**	**-**	**20,061,861**	**26,548,737**
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
Total Yield sensitivity gap	3,874,287	1,065,224	12,258,860	5,266,861		
Cumulative Yield sensitivity gap	**3,874,287**	**4,939,511**	**17,198,371**	**22,465,232**		

b) Currency Risk

Represents the risks of change of 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 SAR'000	2010 SAR'000
Assets		
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
Total currency risk on assets	**3,327,364**	2,567,709
Liabilities		
Due to banks and other financial institutions	186,876	-
Customers' deposits	2,243,046	413,625
Other liabilities	328,086	141,713
Total currency risk on liabilities	**2,758,008**	555,338

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

	2011 SAR'000	2010 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
Total	**569,356**	2,012,371

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**
Liabilities and shareholders' equity						
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
Total Liabilities and shareholders' equity	**14,187,671**	**6,105,930**	**-**	**-**	**16,564,206**	**36,857,807**

2010	**SAR'000**					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Liabilities and shareholders' equity						
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
Total Liabilities and shareholders' equity	**5,797,806**	**3,302,871**	**1,885,089**	**-**	**15,956,124**	**26,941,890**

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**
Assets						
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**
Total	**5,490,803**	**6,800,054**	**12,565,901**	**9,188,666**	**2,737,942**	**36,783,366**
Liabilities and shareholders' equity						
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**
Total	**14,174,538**	**6,044,622**	**-**	**-**	**16,564,206**	**36,783,366**
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
Assets						
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
Total	7,603,726	2,954,873	8,851,601	5,266,861	1,871,676	26,548,737
Liabilities and shareholders' equity						
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
Total	7,590,280	2,580,055	399,559	-	15,978,843	26,548,737
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 Shaira'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) The balances as at December 31, resulting from such transactions included in the consolidated financial statements are as follows:

	2011 **SAR'000**	2010 SAR'000
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing	**203,844**	209,530
Advances to key management personnel	**-**	337
Customers' deposits	**2,819,880**	2,204,687
End of service benefit	**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 SAR'000	2010 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 follow:

	2011 SAR'000	2010 SAR'000
Short-term employees benefits	**36,248**	30,980
End of service benefit	**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 of 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 SAR'000**	2010 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
Total Pillar-I Risk Weighted Assets	**36,295,185**	20,793,398
Tier I Capital	**15,897,254**	15,620,541
Tier II Capital	**118,699**	3,006
Total Tier I & II Capital	**16,015,953**	15,623,547
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) 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).