مصرف الإنماء
alinma bank
for our growth

Honesty

Striving to Lead

Annual Report 2012

Strengthening Relationships

Respect for All

Serving Partners

Innovation

Taking Initiative

Serving the Community

بسم الله الرحمن الرحيم

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

HRH Prince Salman Ibn Abdulaziz Al Saud
Crown Prince, Deputy Prime Minister
and Minister of Defense

HRH Prince Mugrin Ibn Abdulaziz Al Saud
Second Deputy Prime Minister
Adviser and Special Envoy
to the Custodian of the Two Holy Mosques

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Greetings

Greetings

As we embark upon the 2013 operational year, we at Alinma Bank look back with pride at our record of achievement over the past years; and we look forward to even greater achievement in the years to come, which will be accomplished through the commitment, team spirit and sincere efforts of Alinma staff. We are committed to the bank's principles and values and implementing its plans and strategies. By doing so, the bank will bring to fruition a reality that will reinforce the bank's status and role in Saudi Arabia.

We will continue the process of growth in order to make Alinma Bank a leading institution in providing distinctive banking services through the best working environment and the use of contemporary banking technologies.

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

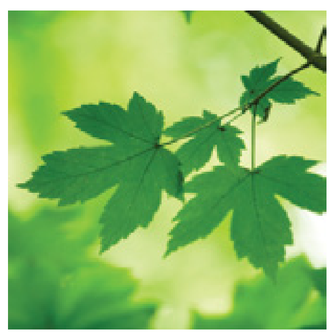
The Bank's Values

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

Honesty

Striving to Lead

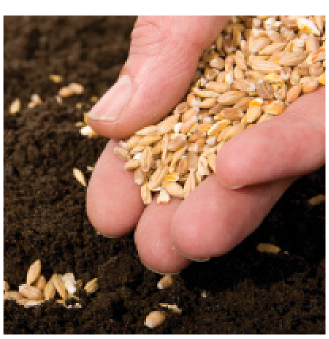
Serving Partners



Strengthening Relationships

Respect for All

Innovation



Taking Initiative

Serving the Community

Establishment

Establishment

Alinma Bank was established under Royal Decree No. M/15, dated 28 Safar 1427, corresponding to March 28, 2006, and the Commercial Registration number (1010250808) dated 21 Jumada al-ula 1429, corresponding to May 26, 2008. 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

It is my pleasure to present to you, on behalf of the members of the Alinma Bank Board of Directors, the Alinma Bank Annual Report for the fiscal year that ended on December 31,2012 after a year filled with achievements.

We have committed, from the outset, to welcome our partners with the latest in banking technology and product and service excellence, and to achieve, for our shareholders, returns that meet their aspirations. The bank has continued its effort to expand its branch network across the Kingdom and has maintained financial growth, which is improving annually. The bank has also adopted an ambitious plan to enhance its role as a market leader over both medium and long-term time horizons. The bank has also continued to expand into new business activities, such as the launch of Alinma Tokio Marine Company, which provides Shariah-compliant insurance services.

The efforts exerted by the bank during the 2012 fiscal year resulted in the achievement of net profits of SAR 733 million, compared to SAR 431 million in 2011, an increase of 70%. Likewise, the financing portfolio grew to SAR 37,187 million at the end of 2012, an increase of 47%. Partner deposits grew from SAR 17,776 million to 32,214 million, an increase of 81%. The bank's assets reached SAR 54,014 million at the end of 2012, compared to SAR 36,783 million at the end of 2011, an increase of 47%. The bank also continued to reinforce its infrastructure and solidify its financial, technological and personnel capabilities; and for its efforts, the bank garnered international recognition, confirming the leading role of the bank.

I would like to take this opportunity to thank my colleagues on the board of directors, the CEO/managing director, and the bank's staff for the great efforts made throughout the 2012 fiscal year. I urge them to continue their tireless pursuit of excellence in the coming years.

My thanks and appreciation are extended to the Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz Al Saud, HRH the Crown Prince, Deputy Prime Minister and HRH the Second Deputy Premier, for the wise policy pursued by the Kingdom, which has resulted in the creation of an attractive economic and investment environment, which, in turn, has supported the Saudi national economy and banking environment. I would also like to thank the finance minister, the governor of the Saudi Arabian Monetary Agency and the chairman of the Capital Market Authority for their unlimited support for the Saudi banking and financial sector.

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

A Message from the Managing Director/CEO

Aspire

In 2012, Alinma launched an advertising campaign under the “Aspire” slogan, through which we aimed to spread a spirit of optimism and hope among our partners and to maximize the spirit of work among our staff.

Aspire was more than a mere advertising slogan; it was a promise to deliver success, achievement and accomplishment. During the 2012 fiscal year, the bank continued its expansion of infrastructure and service offerings, and overall growth.

2012 saw major development of the bank’s branch network, with operations launched in four important regions of the Kingdom: the Northern Border Area under the sponsorship of HH Prince Abdullah Ibn Abdulaziz Ibn Masa’ad Al Saud; the Najran region under the sponsorship of HRH Prince Misha’al Ibn Abdullah Ibn Abdulaziz, the Aseer region under the sponsorship of HRH Prince Faisal Ibn Khalid Ibn Abdulaziz, and the Tabouk region under the sponsorship of HRH Prince Fahad Ibn Sultan Ibn Abdulaziz. Additionally, the bank opened 22 locations and sales centers, including 12 branches for men and 10 for women, bringing the bank’s total number of branches to 87 (49 for men, 38 for women), a 34% increase from 2011. The number of ATMs in 2012 rose to 650, an increase of 63% from 2011.

Your Preferred Financial Partner

The bank’s stated vision is to be “your preferred financial partner.” This vision is made manifest and evident through interactions with bank partners across all points of service; and in 2012 Alinma delivered on its vision in key ways. The bank relaunched its website with a new look and transformed the user experience through its innovative design, use of color, usability, and convenient, feature-rich presentation of important account and transactional information.

Alinma was also particularly proud to become the first bank in Saudi Arabia to make its services accessible to the blind, through special functionality that was built into its Alinma Internet and Alinma Mobile services. Such efforts made a strong impact with partners, as was evident through the 82% rise in Alinma Internet users, and 96% increase in online transactions recorded in 2012. Likewise, the number of Alinma Mobile users increased 367%, and banking transactions executed via Alinma Mobile increased by 670%. The Alinma ATM network grew by 63% for the year to 650. The bank also introduced its no-card “Emergency Cash” ATM withdrawal service, inaugurated its instant, in-branch issuance of prepaid/credit cards from MasterCard, and joined the Visa International card network, which also entailed instant issuance of cards at all Alinma Bank branches.

Providing Partners with Comprehensive Financial Solutions

In 2012, the bank introduced an array of new products and services for partners, especially in the area of real estate development. Several agreements were concluded with real estate developers to provide housing under construction (known as “Selling on the Map”), which is a move to both support developers and provide partners home ownership financing options. The bank also hosted the “Expedited Loan Project” workshop, which brought together senior executives from Saudi banks, the Ministry of Finance and the Real Estate Development Fund.

Lastly, it is important to highlight the awards received by Alinma Bank in 2012. Global Finance recognized Alinma with the award for Best Online Treasury Services, while the Banker Middle East magazine named Alinma the Fastest Growing Bank in Saudi Arabia for 2012. The latter award was based on the evaluation of the financial performance of the bank, its rapid growth in its business, its ability to compete over its short operational history, its growing revenues and its distinct status among its competitors.

Fruitful Partnership

Operating under the slogan “fruitful partnership,” Alinma Investment, the investment arm of Alinma Bank, continued to provide its brokerage and trading services to partners in local and gulf markets andintroduce a number of new products and services. Alinma Investment also functioned as the flotation manager for the successful IPO of Alinma Tokio Marine, which launched its operations in 2012, providing Shariah-compliant cooperative insurance products and services to the retail and corporate sectors.

Alinma Personnel

The aforementioned accomplishments were the result of the hard work of bank employees, of whom we are proud. Indeed, Alinma is staffed with uniquely qualified individuals, from entry level to upper level management, who were attracted through the bank’s human capital strategies, policies and procedures. In 2012, Alinma hired 400 male and female employees, bringing its total headcount to 1,552 giving Alinma a Saudization rate that exceeded 86%. The bank also carried out more than 7,570 total training days, which included cognitive, skill and behavioral courses in banking, financial, legal and administrative areas through a number of training firms.

Coronation

Alinma’s crowning accomplishment in 2012 was its receipt of an A- rating from Fitch Ratings, one of the best recognized credit rating agencies worldwide. This rating is distinct at the global level, especially when considering Alinma’s relatively short history of operation. The bank also showed remarkable growth in all activities during the 2012 fiscal year.

Acknowledgements

In conclusion, I would like to extend my sincere thanks and appreciation to the Custodian of the Two Holy Mosques, HRH the Crown Prince Deputy Prime Minister, and HRH the Second Deputy Premier. I would also like to extend my thanks and gratitude to the Ministry of Finance, the Saudi Arabian Monetary Agency, the Capital Market Authority, the Ministry of Commerce and Industry, Alinma Bank’s founders and other entities for supporting the bank and other economic sectors in the Kingdom. My thanks are finally extended to Alinma partners, the chairman and members of the board of directors and the bank’s employees for their outstanding efforts.

Abdulmohsen Bin Abdulaziz Al-Fares

Managing Director/CEO

Key Accomplishments of 2012

Alinma Partners: Growth and Confidence

Alinma Bank grew rapidly in 2012, as indicated by the following:
• The number of partners increased by 65%
• Deposits increased by 81%
• Financing partners increased by 64%
• Financing increased by 47%
• The number of ATM cards issued rose by 96%
• The number of transactions executed through ATMs rose by 89%
• The number of partners registered with Alinma Phone increased by 60%
• The number of transactions executed through Alinma Phone increased by 62%
• The number of registered Alinma Internet users increased by 82%
• The number of transactions executed via Alinma Internet increased by 96%
• The number of registered Alinma Mobile users increased by 367%
• The number of transactions executed through Alinma Mobile increased by 670%
• Total assets grew by 47%

Branch Network and ATMs: Serving Alinma Partners

During 2012, the bank launched several new branches and ATMs. The number of branches launched in 2012 amounted to 22 (12 for men and 10 for ladies); and one sales center was launched as well. All told, Alinma witnessed a 34% increase in its number of branches for the year. The number of ATMs rose from 400 in 2011 to 650 by the end of 2012, an increase of 63%.

Human Capital: Recruitment & Development

Among the bank's key accomplishments in 2012 was the completion of its human capital strategies. The bank was also successful in attracting and training significant numbers of qualified personnel, including both experienced employees and fresh graduates. The bank recruited 400 male and female employees, bringing the total number of employees at the close of 2012 to 1552, with a Saudization rate that exceeded 86%. A total of 7570 training days took place as well, including cognitive, behavioral and skill training courses in banking, legal, administration, finance, risk and compliance affairs, provided by specialized consulting firms. Other courses were also provided by the bank on products, services and systems.

IT Excellence: Systems Development Applications Security

The bank continued to develop advanced and 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 significant increase in the number of operations resulting from the increasing numbers of partners, branches and ATMs. This approach positively impacted the bank's achievements in the areas of modern systems applications, enhancements and developments, including:

First: Infrastructure:

- Establishing and equipping the bank's disaster recovery center
- Renovating server and storage devices to reduce cost and improve performance

Second: New Applications and Services:

- Emergency Cash Service
- USSD service to execute banking transactions via SMS text messages, making Alinma the first bank to apply this service
- Alinma Internet and portal re-launch
- New functionality for credit cards, including instant, in-branch issuance
- Implementation of the Kingdom's anti-money laundering regulations

Third: Certifications and Awards:

- 2012 Global Finance award for the "Best Online Treasury Services"
- "Product Innovation" award from Temenos
- "The Most Innovative Security Management Infrastructure Operations" award from Symantec
- ISO 27001 certification, for the security of online banking information
- PCI-DSS 2.0 certification, related to information security of credit cards
- "Customer Center of Expertise" certification from SAP, related to the efficiency of information management systems

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, descriptive Ijara, direct investment, foreign exchange and other financial services related to corporate banking.

Since its establishment, the bank has entered into several contracts with major companies engaging in various infrastructure projects in Saudi Arabia related to water, electricity, education, health, security and industrial needs. The bank has also participated in funding a number of housing projects.

Retail Banking: Modern Products and Services

During 2012, the Retail Banking group introduced several new products and services, some of which were offered for the first time in Saudi Arabia, such as the education account, which provides partners with various integrated services once their salaries are transferred to the bank. The bank also introduced the USSD and emergency cash services for the first time in Saudi Arabia. Other service milestones included: re-launching Alinma Internet and Alinma Mobile services with enhanced designs and features, making self-service channels (Alinma Internet, Alinma Mobile, Alinma Phone, Alinma ATMs) accessible to blind/special needs partners, developing electronic account statement systems, concluding agreements with real estate developers to provide housing under construction to partners, collaborating with the Real Estate Development Fund on partner financing, concluding an agreement with MasterCard for the instant, in-branch issuance of prepaid/credit cards, and enhancing capabilities to respond to suggestions and complaints.

Alinma Bank: Inviting Partners to Higher Aspirations

During 2012, the bank promoted the concept of aspiration among its partners through unique advertising campaigns designed to communicate the bank's most important values: transparency and clarity. It welcomed its partners in 2012 with its "Aspire" campaign, which aimed to spread the spirit of optimism and hope among both its existing and potential partners. The campaign also helped to introduce an array of innovative, Shariah-compliant products, services and financial solutions in order to meet partner aspirations and needs, thus achieving the bank's vision of being the preferred financial partner for all.

2012 witnessed the launch of Alinma operations in four important regions of the Kingdom: the Northern Border Area under the sponsorship of HH Prince Abdullah Ibn Abdulaziz Ibn Masa'ad Al Saud; the Najran region under the sponsorship of HRH Prince Misha'al Ibn Abdullah Ibn Abdulaziz, the Aseer region under the sponsorship of HRH Prince Faisal Ibn Khalid Ibn Abdulaziz, and the Tabouk region under the sponsorship of HRH Prince Fahad Ibn Sultan Ibn Abdulaziz. These launch ceremonies were accompanied by the introduction of key products and services.

The bank crowned its 2012 campaign by winning a number of international, regional and local awards as well as the appreciation of partners and the local community. The bank obtained an A- rating with a stable outlook from Fitch Ratings, which is one of the most well respected credit rating agencies worldwide. This rating is distinct at the global level, especially when considering Alinma's relatively short history of operation. The bank was also given the award for being the fastest growing bank in Saudi Arabia in 2012 by the Banker Middle East magazine. This award was based on the financial performance of the bank, the rapid growth of its business, its ability to be competitive over a short period of operation, its growing revenues and its distinctive status among its competitors.

Sustainable Growth and Success in Treasury Operations in 2012

The Treasury group continued to pursue a conservative approach during 2012 in anticipation of worldwide economic and political fluctuations. Flexible strategies were adopted to manage Treasury operations such as those related to foreign currencies and investment portfolios. Furthermore, the Assets and Liabilities Management desk handled liquidity needs carefully in order to fund key bank activities. This approach contributed to the achievement of outstanding results during 2012.

The Treasury group continued to reinforce business relationships with local, regional and global financial institutions as well as government and semi-governmental agencies; and the group achieved significant progress in diversifying and securing liquidity sources with such entities.

The Treasury group also diversified income sources by investing in various assets such as structured investments and high quality shares and assets which generated various revenue sources within specific investment controls. The Money Market Desk team managed to serve and attract new flows of partners by offering competitive prices and new and efficient services. The flow of currencies continued to grow and represented one of the successes achieved in 2012.

Finally, the bank took the initiative in developing exemplary, treasury products that were relevant to market needs, while remaining fully committed to Shariah compliance. Indeed, the Treasury group signed several Shariah-compliant agreements, and launched the new "NAMA" product, which provided partners with the ability to flexibly invest their liquidity surpluses without the need to execute Murabaha transactions.

Alinma Investment: Fruitful Partnership

Alinma Investment, Alinma Bank's investment subsidiary, continued to offer its investment services to partners through brokerage and trading services in local and international shares. Brokerage revenues increased by 60% compared to the previous year, which led to a rise in total revenues from SAR 15 million in 2011 to SAR 38 million in 2012. Likewise, growth in trading volume increased from SAR 16 billion in 2011 to SAR 30 billion at the end of December 2012, an increase of 88%. Moreover, Alinma Investment introduced a number of new products and services, which included:

Purification Service: Monies in mixed investments are "purified" according to Shariah standards as per the investment operations carried out by the client during a specified period.

Islamic Compliance Status Service: Shariah-compliant shares across international markets based on Shariah approved standards.
Shariah Lists Service: Partners have the ability to select trading criteria in addition to those criteria defined by Alinma Investment.
Technical Analysis Service: Partners are provided with daily technical analysis of shares of companies traded on the Saudi and GCC stock markets.

Alinma Investment continued to provide private portfolio and advisory services to private and public companies. Alinma Investment also began to offer fully Shariah-compliant investment funds to partners. These included the Alinma Saudi Equity Fund, which aims for capital growth through long-term investment in Saudi Shariah-compliant shares, and the Alinma Saudi Riyal Liquidity Fund, which aims to protect capital while achieving rewarding returns through low risk investment. Additionally, the Collective Real Estate Fund has been established as a private placement, pursuant to the Investment Funds List and Real Estate Investment Funds statutes issued by the Capital Market Authority. The company also received CMA's approval to offer the Alinma Conservative Multi-Asset Fund and the Alinma Optimistic Multi-Asset Fund for public offering. In 2012, the company also functioned as an IPO underwriter and as a Shariah adviser for the restructuring of Sukuk in one of the largest companies operating in Saudi Arabia. Additionally, Alinma Investment provided public subscription and other services.

Directors' Report

The Board of Directors of Alinma Bank is pleased to present the Fourth Annual Report encompassing the activities for the fiscal year ended December 31, 2012.
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 (87) locations (49 for men and for 38 women) as of end of 2012, supported by the state of the art technology, professionally trained staff, and the best electronic channels including Alinma internet www.alinma.com, Alinma phone 8001208000, Alinma mobile and the wide network of ATMs spread over all regions of the Kingdom of Saudi Arabia.

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.

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.

Alinma Tokio Marine:

The company is based in Riyadh and obtained the Commercial Registration on 28/07/1433H, corresponding 18 June 2012. The company operates in accordance with the regulations and the Shariah guidelines and provisions. The Bank has acquired 28.75% stake in company's capital of SAR 200 million.

Credit Rating of the bank

During the financial year 2012, the bank obtained its first credit rating as (A-) with a stable outlook by Fitch Rating Agency. This rating distinguishes Alinma, despite its relatively short operational history.

Financial Highlights

Financial highlights for the last four years are given below:

SAR in Millions

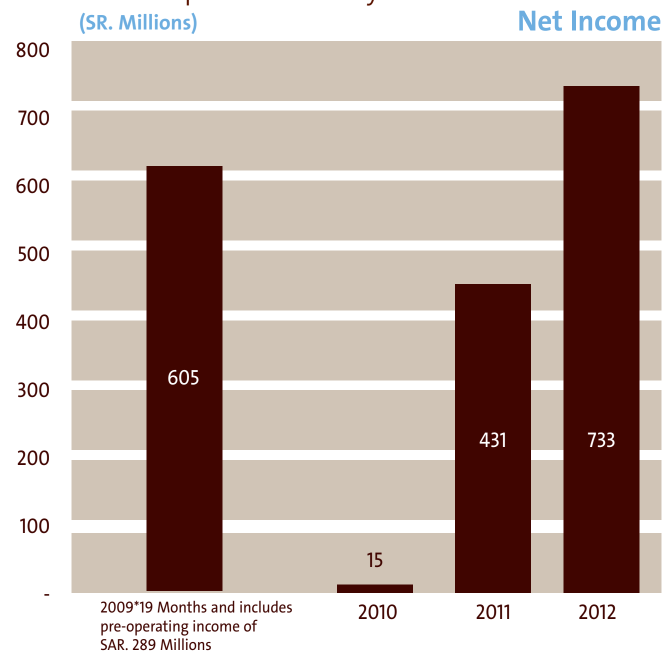
Financial Position	**2012**	2011	2010	2009
Financing, net	**37,187**	25,260	15,593	1,112
Investments (including due from banks and FIs)	**10,968**	7,431	8,427	14,846
Total Assets	**54,014**	36,783	26,549	17,306
Customers' Deposits	**32,214**	17,776	8,316	1,498
Total Liabilities	**37,350**	20,889	11,048	1,701
Shareholders' Equity	**16,664**	15,894	15,501	15,605

SAR in Millions

Operating Results	**2012**	2011	2010	2009 (19 months)
Net income from investment and financing activities	**1,517**	1,112	525	945
Fee from banking and other services	**309**	276	137	9
Total operating income	**1,826**	1,388	662	954
Total operating expenses	**1,079**	957	647	638
Net operating income	**747**	431	15	316
Pre-operating income, net	**-**	-	-	289
Share of loss from associate	**14**	-	-	-
Net Income	**733**	431	15	605

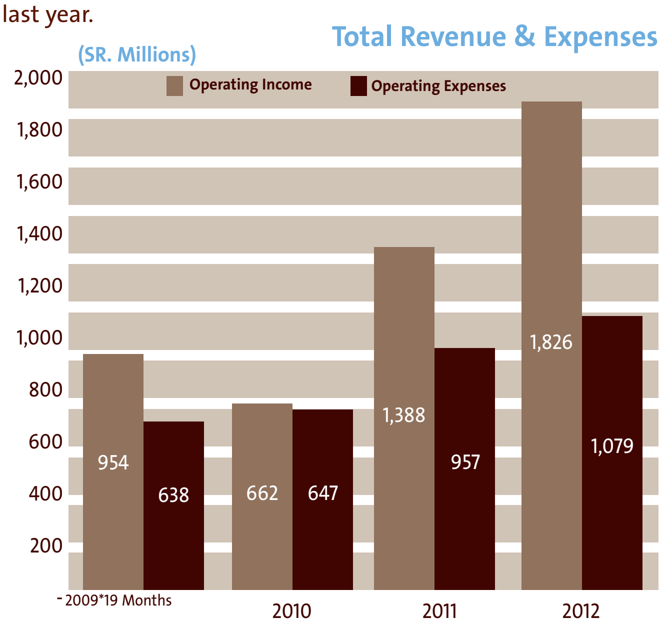
Operating Results

The Bank registered net income of SAR 733 million for the financial year ended December 31, 2012 compared to the net income of SAR 431 million for the previous financial year.



Total operating income for the year ended December 31st 2012 amounted to SAR 1,826 million compared to SAR 1,388 million for financial year 2011 reflecting a significant growth of 32%. Net income from investments and financing activities during the year 2012 increased to SAR 1,517 million reflecting a growth of 36% over SAR 1,112 million last year. The above growth is directly attributable to significant increase in core banking business during the year.

During the year 2012, the bank has also made additional provision against financing portfolio of SAR 154 million compared to SAR 125 million for the year 2011. Besides, the bank continued with its strategic expansion plan by adding 12 branches for men, 10 locations for women and 250 ATMs. As a result the operating expenses increased to SAR 1,079 million compared to 957 million last year.

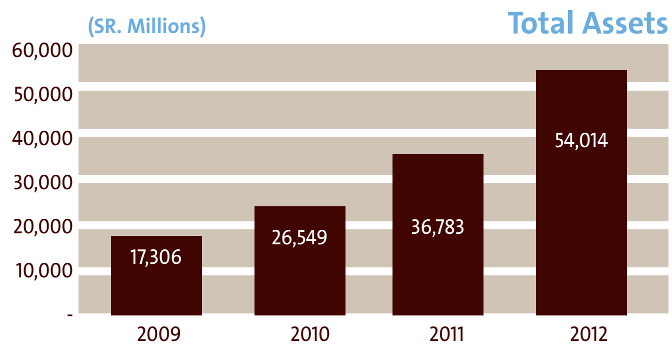


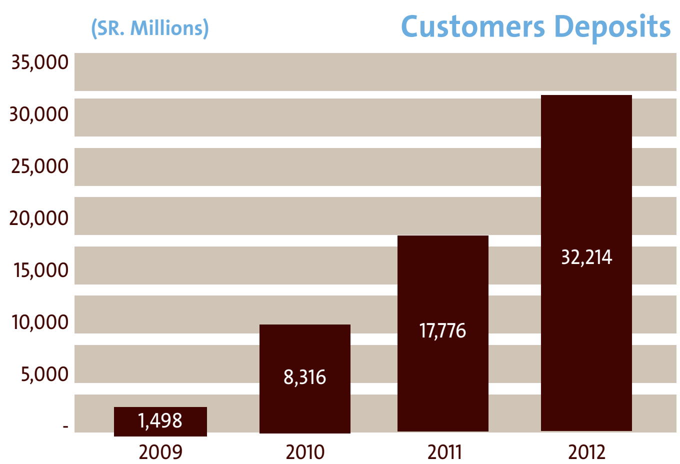
Earnings per Share

Earnings per share for the year 2012 amounted to SAR 0.49 (4.9% of the share nominal value) compared to SAR 0.29 for the year 2011.

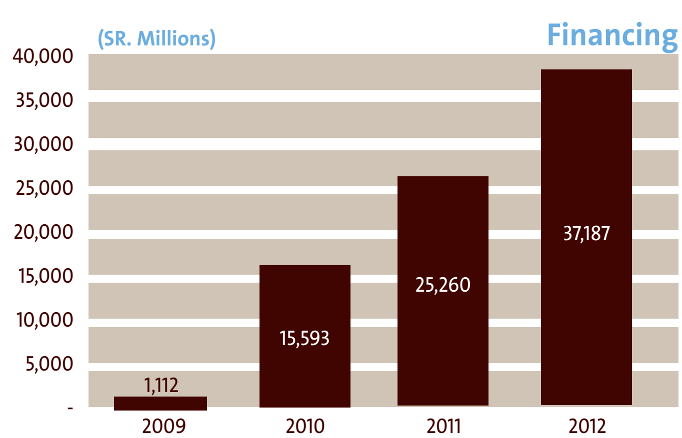
Financial Position

The bank's assets grew by 47% to SAR 54,014 million during the year 2012 compared to SAR 36,783 million as of December 31, 2011, on the back of 81% growth in deposits from SAR 17,776 million at the end of year 2011 to SAR 32,214 million as of December 31, 2012.





On the other hand, the financing portfolio also grew by 47% from SAR 25,260 by end of year 2011 to SAR 37,187 million by December 31, 2012.



Shareholder's equity and Capital Adequacy

Shareholders' equity stood at SAR 16,664 million at end of year 2012 compared to SAR 15,894 million as at December 31st 2011. Alinma's Capital Adequacy ratio declined from 44% at the end of year 2011 to 33% by the end of 2012 mainly 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 as 8%.

Financial Position by Segments

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

2012- SAR in million

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Total
Total Assets	7,523	32,754	13,268	469	54,014
Total Liabilities	15,067	11,264	10,729	290	37,350
Total Operating Income	454	978	356	38	1,826

2011 - SAR in million

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Total
Total Assets	5,089	22,508	8,881	305	36,783
Total Liabilities	10,284	3,830	6,662	113	20,889
Total Operating Income	301	805	267	15	1,388

Geographic Analysis of Revenue

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

SAR in million

Total revenue	Western Region	Eastern Region	Central Region	Total
Financial year ended 31/12/2012	373	92	1,361	1,826
Financial year ended 31/12/2011	396	44	948	1,388

Branches and ATM networks

The Bank during the year 2012 opened 12 branches for men and 10 locations for women, bringing the total number of locations to 49 for men and 38 for women. In addition, the Bank also added 250 new ATMs bringing the total to 650 ATMs by end of the year.

Borrowing by the Bank

Total outstanding borrowings as of December 31, 2012 amounting to SAR 2,415 million are maturing maximum by February 13, 2013. The aggregate maximum exposure during the year was SAR 4,029 million.

Dividend Distribution Policy

As stipulated in Alinma bank By-Laws, 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 Statutory 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(s).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 has recommended the following appropriations:

Particulars	2012	2011
	SAR in millions	
Net income for the year	**733**	431
Transfer to statutory reserve(25% of net income)	**(183)**	(107)
Transfer to general reserve	**-**	-
Retained earnings-brought forward	**789**	465
Retained earnings-carried forward	**1,339**	789

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 By laws, the first Board of Directors has been appointed by the Founding Members for a period of five (5) years. The Board held four meetings during the financial year 2012 as shown in the table below:

Name	Membership Status	Other Directorship	Meetings Date				
			12/02/2012	04/03/2012	03/06/2012	11/11/2012	Total
Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	Independent	Al-Sahara Co., Sipchem Co. & Al-Zamil Group	✓	✓	✓	✓	4
Mr. Abdul Mohsen Abdul Aziz Al-Fares (Managing Director/CEO)	Executive	NTCC Deyaar Al KhozamaReal-estate Development Co. Alinma Tokio Marine Co	✓	✓	✓	✓	4
Dr. Suleiman Mohammad Al-Turki	Non- executive	National Water Company	✓	✓	✓	✓	4
Mr. Saad Ali Al-Kathiry	Non- executive	Saudi Industrial Investment Group	✓	✓	✓	✓	4
Mr. Abdul Muhsin Abdul Aziz Al-Hussein	Non- executive	-	✓	✓	✓	✓	4
Dr. Abdulrehman Hamad Al-Harkan	Independent	-	✓	✓	✓	✓	4
Dr. Saad Attia Al-Ghamdi	Independent	-	-	✓	-	✓	2
Mr. Mohammed Yousef Naghi	Independent	Eimaar the Economic City	✓	-	-	-	1
Dr. Ibrahim Fahad Al- Ghufaili	Independent	-	✓	✓	✓	✓	4

Change in Major Shareholding

There has been no change in the composition of the shareholders holding more than 5% of the shares. Said shareholders are listed below:

Shareholder	Number of shares	Ownership percentage
Public Pension Agency	160,700,000	10.71%
Public Investments 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 in discharging its duties and responsibilities, as follows:

Executive Committee

The Executive Committee has been 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 ten (10) meetings during the financial year as shown in the table below:

Name	Meetings Date										
	26/02/2012	17/03/2012	08/04/2012	27/05/2012	03/06/2012	05/08/2012	30/09/2012	11/11/2012	09/12/2012	19/12/2012	Total
Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	**10**
Mr. Abdul Mohsen Abdul Aziz Al-Fares	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	**10**
Dr. Suleiman Mohammad Al-Turki	-	-	✓	✓	✓	✓	✓	✓	✓	✓	**8**
Mr. Abdul Mohsen Abdul Aziz Al- Hussain	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	**10**
Dr. Ibrahim Fahad Al-Ghufaili	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	**10**

Benefits & Compensations Committee

The Benefits and Compensations Committee has been 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 2012, and were attended by members as shown in the table below:

Name	Meeting Date		
	28/01/2012	11/11/2012	Total
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				
	11/01/2012	07/04/2012	07/07/2012	06/10/2012	Total
Dr. Saad Attia Al-Ghamdi (Chairman)	✓	✓	✓	✓	**4**
Dr. Saud Muhammad Al Nemer *	✓	✓	-	✓	**3**
Mr. Khalid Muhammad Al Obudi *	✓	✓	✓	✓	**4**

* 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	-	-	8,694,168
Allowances	62,000	317,350	4,601,088
Annual & Periodic remuneration schemes	300,000	2,400,000	9,854,964
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 provide guidance, supervision and monitoring of all business conducted 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 - Deputy
3. Dr. Suleiman Ben Turkey Al Turkey - Member

To achieve its objectives, 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 2012:

- Saudi Arabian Monetary Agency (SAMA) SAR 289,217
- Ministry of Municipalities and Rural Affairs SAR 352,300

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

Legally Accrued Payments

The estimated Zakat for the financial year ended December 31, 2012 amounted to SAR 47 million while the withholding tax payable at the end of financial year 2012 amounted to SAR 420,552.

Staff Benefits

Benefits and compensation of employees are paid in accordance with the provisions of the Saudi Labor Law. As at December 31, 2012, the accumulated balance for the end of service benefits amounted to SAR 40 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, Sukuks and other instruments issued by the Bank or any of its subsidiaries							
SN	Member's Name	Beginning of the year		End of the year		Net change	% change
		No. of Share	Sukuks	No. of Share	Sukuks		
1	Eng. Abdul Aziz Abdullah Al-Zamil	450,572	-	900,572	-	450,000	99.9%
2	Mr. Abdul Mohsen Abdul Aziz Al- Fares	300,000	-	400,000	-	100,000	33.3%
3	Dr. Suleiman Mohammad Al-Turki	51,145	-	51,145	-	0	0%
4	Mr. Saad Ali Al-Kathiry	1,290	-	1,290	-	0	0%
5	Dr. Saad Attia Al-Ghamdi	10,772	-	10,286	-	(486)	(4.5%)
6	Dr. Abdulrehman Hamad Al-Harkan	10,000	-	10,000	-	0	0%
7	Mr. Mohammed Yousef Naghi	10,000	-	10,000	-	0	0%
8	Dr. Ibrahim Fahad Al- Ghufaili	141,735	-	131,747	-	(9,988)	(7%)

Description of all ownership by senior executives, their spouses and minor children in the shares, Sukuks and other instruments issued by the Bank or any of its subsidiaries							
SN	Member's Name	Beginning of the year		End of the year		Net change	% change
		No. of Share	Sukuks	No. of Share	Sukuks		
1	Muhammad Iqbal M. Ibrahim	20,000	-	0	-	(20,000)	(100%)
2	Emad AbdulRahman AlButairi	859	-	859	-	0	0%
3	Sulaiman Ali AlHudaif	84,449	-	119,449	-	35,000	41.5%
4	Muhammad Abdullah Alwadh	10,000	-	11,000	-	1,000	10%
5	Saad AbdulMohsin AlYaqoub	276,407	-	276,407	-	0	0%
6	Haidar Ali Rashed	20,000	-	50,000	-	30,000	150%
7	Abdulaziz Mohammad Al-Onaizan	200,000	-	70,000	-	(130,000)	(65%)

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 control.

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 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.

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, the Chief Financial Officer or any other related party 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). The Bank is also considering formal launch of SMEs and Remittance business.

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 2012.

Gratitude:

The Board of Directors is pleased to express its pride on the bank's performance during the year 2012 in terms of expansion in branches, ATMs, electronic channels and the banking products and services made available to its customers that in turn have reflected in the improved operational results and the customer base.
The board also 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 further advancement and prosperity of the Bank. The Board would also like to place on record the sincere appreciation for the loyalty and dedication of the Alinma group employees in accomplishment of their tasks.

On this occasion, the Board of Directors and the bank's employees raises their gratitude to the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud and to His Royal Highness the Deputy Prime Minster Prince Salman bin Abdul Aziz Al Saud for the large efforts exerted by them for the country and the citizens, May Allah bless them and guide them to all best and protect our precious country from all harms.

The Board of Directors

Auditors' Report & Financial Statements

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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, 2012, 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, 2012, 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

9 Rabi Al Akhir 1434H
February 19, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2012 and 2011	Notes	**2012** **SAR'000**	2011 SAR'000
Assets			
Cash and balances with Saudi Arabian Monetary Agency	4	**2,764,956**	1,412,781
Due from banks and other financial institutions	5	**9,007,813**	4,003,328
Investments	6	**1,960,243**	3,428,281
Financing, net	7	**37,186,500**	25,259,909
Property and equipment, net	8	**1,447,824**	1,379,245
Other assets	9	**1,647,117**	1,299,822
TOTAL ASSETS		**54,014,453**	36,783,366
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	**2,414,532**	2,442,876
Customers' deposits	11	**32,213,612**	17,776,284
Other liabilities	12	**2,722,112**	670,185
TOTAL LIABILITIES		**37,350,256**	20,889,345
SHAREHOLDERS' EQUITY			
Share capital	13	**15,000,000**	15,000,000
Statutory reserve	14	**446,259**	262,969
Net change in fair value of available for sale investments		**33,784**	(3,233)
Retained earnings		**1,338,775**	788,906
Treasury shares	15	**(154,621)**	(154,621)
TOTAL SHAREHOLDERS' EQUITY		**16,664,197**	15,894,021
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**54,014,453**	36,783,366

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, 2012 and 2011	Notes	2012 SAR'000	2011 SAR'000
Income from investment and financing	17	1,635,370	1,184,483
Return on time investments	17	(118,243)	(72,917)
Net income from investments and financing activities	17	1,517,127	1,111,566
Fees from banking services, net	18	242,855	256,624
Exchange income, net		21,417	11,745
Income from FVIS financial instruments, net		2,837	443
Gain on sale of available for sale investments, net		30,174	-
Dividend income		11,253	5,498
Other operating income		391	2,393
Total operating income		1,826,054	1,388,269
Salaries and employee related expenses	19	472,261	445,569
Rent and premises related expenses		81,226	66,236
Depreciation and amortization	8	150,254	123,746
Other general and administrative expenses		221,268	196,650
Charge for impairment on financing		154,373	124,734
Total operating expenses		1,079,382	956,935
Net operating income		746,672	431,334
Share of loss from associate	6.3	(13,513)	-
Net income for the year		733,159	431,334
Other comprehensive income/(loss):			
Net change in fair value of available for sale investments		67,191	(3,244)
Net gain realized on available for sale investments		(30,174)	-
Total comprehensive income		770,176	428,090
Basic and diluted earnings per share (SAR)	20	0.49	0.29

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, 2012 and 2011

SAR'000

2012	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**	**262,969**	**(3,233)**	**788,906**	**(154,621)**	**15,894,021**
Net income for the year		**-**	**-**	**-**	**733,159**	**-**	**733,159**
Net change in fair value of available for sale investments		**-**	**-**	**67,191**	**-**	**-**	**67,191**
Net amount realized on available for sale investments		**-**	**-**	**(30,174)**	**-**	**-**	**(30,174)**
Total comprehensive income		**-**	**-**	**37,017**	**733,159**	**-**	**770,176**
Transfer to statutory reserve	**14**	**-**	**183,290**	**-**	**(183,290)**	**-**	**-**
Balance at the end of the year		**15,000,000**	**446,259**	**33,784**	**1,338,775**	**(154,621)**	**16,664,197**

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
Net income for the year		-	-	-	431,334	-	431,334
Net change in fair value of available for sale investments		-	-	(3,244)	-	-	(3,244)
Net amount realized on available for sale investments		-	-	-		-	-
Total comprehensive 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

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, 2012 and 2011	Notes	2012 SAR' 000	2011 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**733,159**	431,334
Adjustments to reconcile net income to net cash from/ (used in) operating activities			
Depreciation and amortization	8	**150,254**	123,746
Loss on disposal of property and equipment, net		**-**	14,567
Charge for impairment on financing		**154,373**	124,734
Income from FVIS financial instruments, net		**(2,837)**	(443)
Share of loss from associate	6.3	**13,513**	-
		1,048,462	693,938
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	**(668,745)**	(509,812)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**692,690**	715,164
Investments		**1,494,379**	(807,493)
Financing		**(12,080,965)**	(9,791,358)
Other assets		**(347,294)**	(621,376)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(28,344)**	188,860
Customers' deposits		**14,437,328**	9,460,406
Other liabilities		**2,051,927**	191,894
Net cash from /(used) in operating activities		**6,599,438**	(479,777)
INVESTING ACTIVITIES			
Acquisition of property and equipment		**(218,833)**	(335,656)
Proceeds from disposal of property and equipment		**-**	11,293
Net cash used in investing activities		**(218,833)**	(324,363)
FINANCING ACTIVITY			
Purchase of treasury shares		**-**	(34,621)
Net cash used in financing activity		**-**	(34,621)
Net increase/(decrease) in cash and cash equivalents		**6,380,605**	(838,761)
Cash and cash equivalents at the beginning of the year		**485,297**	1,324,058
Cash and cash equivalents at end of the year	22	**6,865,902**	485,297
Income received from investments and financing		**1,521,450**	1,102,006
Return paid on time investments		**116,594**	67,468
Dividend received		**11,253**	5,498
Supplemental non-cash information:			
Net changes in fair value less realized gain on available for sale investments		**37,017**	(3,244)

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 provides banking services through 49 branches (2011: 37) 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)

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 review and approval.

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 statement ("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 consolidated financial statements for the year ended December 31, 2011.

The amendments and revisions to International Financial Reporting Standards that are applicable during 2012 were either not relevant to the Bank or have no material impact on these consolidated financial statements.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Bank's accounting years beginning on or after January 1, 2013 (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 year, 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 a 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 profit bearing financial instruments are recognized in the consolidated statement of comprehensive income on the effective yield basis. The effective yield is the rate that exactly discounts 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 including all fees, transaction costs, discounts that are an integral part of the effective yield but does not include the future financing losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

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.

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 income from FVIS financial instruments, net.

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 amortized 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 amortized 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 consolidated 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.

Investments in associates

An associate is an entity where the Bank holds significant influence (but not control) over its financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method whereby investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Bank's share of net assets in the associate, less impairment in the value of investments if any.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income, and its share of movements in other comprehensive income is recognized in reserves.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 could conclude either by transferring the ownership of the leased asset to the lessee or by termination of lease and 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 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 amortized 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 charge for impairment on financing.

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 consolidated 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 consolidated 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 consolidated 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	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.
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

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 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 of 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) End of Service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

r) 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.

s) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which includes management of certain mutual funds. Fee earned are disclosed in consolidated statement of comprehensive income. The Bank's share of investments is included under available for sale investments in the consolidated statement of financial position.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank or its subsidiary and, accordingly, are not included in the Bank's consolidated statement of financial position.

4. Cash and balances with SAMA

	2012 SAR'000	2011 SAR'000
Cash in hand	**689,227**	359,352
Statutory deposit	**1,672,223**	1,003,478
Cash management account with SAMA	**270,000**	-
Current account	**112**	140
Other	**133,394**	49,811
Total	**2,764,956**	1,412,781

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 is not the part of cash and cash equivalents.

5. Due from banks and other financial institutions

	2012 SAR'000	2011 SAR'000
Current accounts	**23,963**	27,403
Murabahas with banks and other financial institutions	**8,983,850**	3,975,925
Total	**9,007,813**	4,003,328

6. Investments

	Notes	2012 SAR'000	2011 SAR'000
Murabahas with SAMA (at amortized cost)		**900,000**	2,649,934
Available for sale investments	6.1	**987,979**	695,407
Held as FVIS investments	6.2	**28,277**	25,440
Investment in associate	6.3	**43,987**	57,500
Total	6.4	**1,960,243**	3,428,281

6.1 Available for sale investments

	2012 SAR'000	2011 SAR'000
Sukuks	**334,167**	334,000
Equities	**418,077**	226,114
Others	**235,735**	135,293
Total	**987,979**	695,407

The above investments are mainly in quoted securities and include investment amounting to SAR 98.3 million (2011: SAR 83.9) 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 Investment in associate

Investment in associate represents the Bank's share of investment (28.75%) in Alinma Tokio Marine (a cooperative insurance company). The company has a paid up share capital of SAR 200 million. It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	2012 SAR'000	2011 SAR'000
Opening balance	**57,500**	-
Cost of acquisition	**-**	57,500
Share of undistributed loss	**(13,513)**	-
	43,987	57,500

6.4 Analysis of investments by type

	2012 SAR'000	2011 SAR'000
Fixed-rate investments	**900,000**	2,649,934
Floating-rate investments	**334,167**	334,000
Equities	**446,355**	251,554
Others	**279,721**	192,793
Total	**1,960,243**	3,428,281

6.5 Analysis of investments by counter-parties

	2012 SAR'000	2011 SAR'000
Government and quasi government	**1,189,821**	2,802,047
Corporate	**770,422**	626,234
Total	**1,960,243**	3,428,281

6.6 Analysis of investments by credit quality

	2012 SAR'000	2011 SAR'000
Investment Grade	**1,234,167**	2,983,934
Equities and others	**726,076**	444,347
Total	**1,960,243**	3,428,281

7. Financing, net (at amortized cost)

SAR'000

2012	Performing	Non-performing	Total	Allowance for impairment	Net
Retail	**6,191,388**	**122,125**	**6,313,513**	**(77,985)**	**6,235,528**
Corporate	**31,154,525**	**-**	**31,154,525**	-	**31,154,525**
Total	**37,345,913**	**122,125**	**37,468,038**	**(77,985)**	**37,390,053**
Collective provision					**(203,553)**
Financing, net					**37,186,500**

SAR'000					
2011	Performing	Non-performing	Total	Allowance for impairment	Net
Retail	4,267,214	10,134	4,277,348	(5,801)	4,271,547
Corporate	21,110,295	-	21,110,295	-	21,110,295
Total	25,377,509	10,134	25,387,643	(5,801)	25,381,842
Collective provision					(121,933)
Financing, net					25,259,909

7.1 Movement in allowance for impairment of financing:

2012			SAR'000
	Retail	**Corporate**	**Total**
Balance at the beginning of the year	**5,801**	**-**	**5,801**
Provided during the year	**73,326**	**-**	**73,326**
Bad debts written off	**(569)**	**-**	**(569)**
Recoveries of amounts previously provided	**(573)**	**-**	**(573)**
Balance at the end of the year	**77,985**	**-**	**77,985**
Collective provision	**58,828**	**144,725**	**203,553**
Total	**136,813**	**144,725**	**281,538**

2011			SAR'000
	Retail	Corporate	Total
Balance at the beginning of the year	-	-	-
Provided during the year	5,801	-	5,801
Bad debts written off	-	-	-
Recoveries of amounts previously provided	-	-	-
Balance at the end of the year	5,801	-	5,801
Collective provision	23,155	98,778	121,933
Total	28,956	98,778	127,734

7.2 Credit quality of financing portfolio:

For the purpose of the internal risk rating, the Bank has implemented the generic Moody's KMV Risk Analyst Tool. This Tool, which is also being used by several 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	**2012 SAR'000**	2011 SAR'000
1 - 4	Investment Grade	**20,023,958**	13,692,403
5 - 6	Below Investment Grade	**11,002,850**	7,413,265
7	Watch list	**-**	-
		31,026,808	21,105,668
	Unrated exposure (Retail)	**6,182,155**	4,251,505
Total		**37,208,963**	25,357,173

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):

2012	**SAR'000**		
	Retail	**Corporate**	**Total**
From 1 day to 30 days	**6,458**	**127,294**	**133,752**
From 31 days to 90 days	**2,775**	**423**	**3,198**
From 91 days to 180 days	**-**	**-**	**-**
More than 180 days	**-**	**-**	**-**
Total	**9,233**	**127,717**	**136,950**

2011	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	14,660	4,627	19,287
From 31 days to 90 days	1,049	-	1,049
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
Total	15,709	4,627	20,336

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

2012				SAR'000
	Performing	Non-Performing	Allowance for impairment	Financing, net
Government and quasi government	7,457,331	-	-	7,457,331
Manufacturing	3,607,481	-	-	3,607,481
Electricity, water, gas & health services	1,169,131	-	-	1,169,131
Building, construction and real estate	11,183,309	-	-	11,183,309
Services	2,123,606	-	-	2,123,606
Consumer financing	6,191,388	122,125	(77,985)	6,235,528
Commerce	3,982,905	-	-	3,982,905
Others	1,630,762	-	-	1,630,762
	37,345,913	122,125	(77,985)	37,390,053
Collective provision				(203,553)
Financing, net				37,186,500

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, construction and real estate	5,798,764	-	-	5,798,764
Services	1,197,826	-	-	1,197,826
Consumer financing	4,267,214	10,134	(5,801)	4,271,547
Commerce	2,869,172	-	-	2,869,172
Others	1,309,848	-	-	1,309,848
	25,377,509	10,134	(5,801)	25,381,842
Collective provision				(121,933)
Financing, net				25,259,909

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

	2012 SAR'000	2011 SAR'000
Less than 1 year	**644,251**	399,381
1 to 5 years	**6,067,954**	2,273,583
Over 5 years	**9,839,950**	4,825,729
Gross receivables from Ijarah	**16,552,155**	7,498,693
Unearned future finance income on Ijarah	**(4,339,563)**	(1,156,051)
Specific provision	**(1,583)**	(1,458)
Net receivables from Ijarah	**12,211,009**	6,341,184

8. Property and equipment, net

					SAR'000
	Land and buildings	Leasehold improvements	Furniture and equipment	**Total 2012**	Total 2011
Cost:					
Balance at beginning of the year	569,965	192,514	897,038	1,659,517	1,363,759
Additions	76,123	33,909	108,801	218,833	335,656
Disposals	-	-	-	-	(39,898)
Balance at end of the year	**646,088**	**226,423**	**1,005,839**	**1,878,350**	**1,659,517**
Accumulated depreciation:					
Balance at beginning of the year	5,114	35,458	239,700	280,272	170,564
Charge for the year	7,808	21,965	120,481	150,254	123,746
Disposals	-	-	-	-	(14,038)
Balance at end of the year	12,922	57,423	360,181	430,526	280,272
Net book value as at December 31, 2012	**633,166**	**169,000**	**645,658**	**1,447,824**	
Net book value as at December 31, 2011	564,851	157,056	657,338		1,379,245

Property and equipment include work in progress as at December 31, 2012 amounting to SAR 98 million (2011: SAR 123 million). Furniture and equipment includes information technology related assets as follows:

			SAR'000
Information technology related assets:	Tangible	Intangible	Total
Cost	367,325	526,734	894,059
Accumulated depreciation/amortization	(143,692)	(164,454)	(308,146)
Net book value as at December 31, 2012	**223,633**	**362,280**	**585,913**
Net book value as at December 31, 2011	213,292	380,124	593,416

9. Other assets

	Note	2012 SAR'000	2011 SAR'000
Accrued income receivable on:			
Investments		**56,878**	37,510
Financing		**396,372**	392,025
Total		**453,250**	429,535
Zakat paid/accrued on behalf of shareholders	21	**792,310**	607,005
Prepaid rental		**23,746**	22,330
Advances to suppliers		**20,366**	9,355
Other prepayments		**31,463**	30,635
Others		**325,982**	200,962
Total		**1,647,117**	1,299,822

10. Due to banks and other financial institutions

	2012 SAR'000	2011 SAR'000
Cash management account with SAMA	**-**	21,000
Murabahas with banks and other financial institutions	**2,141,291**	2,235,000
Others	**273,241**	186,876
Total	**2,414,532**	2,442,876

11. Customers' deposits

i) Customers' deposits include the following:

	2012 SAR'000	2011 SAR'000
Demand	**19,511,453**	8,961,924
Customers' time investments	**9,972,540**	7,530,095
Others	**2,729,619**	1,284,265
Total	**32,213,612**	17,776,284

Other represents cash margins for letter of credits and guarantees.

ii) The above includes foreign currency deposits as follows:

	2012 SAR'000	2011 SAR'000
Demand	**2,262,822**	738,272
Customers' time investments	**2,510,284**	344,205
Other	**2,601,537**	1,160,569
Total	**7,374,643**	2,243,046

12. Other liabilities

	2012 SAR'000	2011 SAR'000
Accrued profit payable on:		
Customers' time investments	**29,152**	27,272
Due to banks and other financial institutions	**665**	895
Total	**29,817**	28,167
Accrued expenses	**152,340**	117,144
Outward drafts payable	**2,036,334**	235,261
Accounts payable	**86,816**	95,001
Advance rentals	**377,747**	180,656
Others	**39,058**	13,956
Total	**2,722,112**	670,185

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2011: 1,500 million shares) of SAR 10 each.

The ownership of the Bank's share capital is as follows:

	2012	2011
	Percentage	
Public Pension Agency ("PPA")	**10.7**	10.7
Public Investment Fund ("PIF")	**10.0**	10.0
General Organization for Social Insurance ("GOSI")	**10.0**	10.0
General public and others	**69.3**	69.3
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 183.3 million (2011: SAR 107.8 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, 2012 there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2012, the Bank had capital commitments of SAR 93.8 million (2011: SAR 119 million) relating to property and equipment.

c) Credit related commitments and contingencies

Credit related commitments and contingencies 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:

2012					**SAR'000**
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**3,060,845**	**481,195**	**44,100**	**-**	**3,586,140**
Letters of guarantee	**137,939**	**1,690,369**	**674,012**	**15,015**	**2,517,335**
Acceptances	**238,721**	**644**	**-**	**-**	**239,365**
Irrevocable commitments to extend credit	**-**	**1,854,432**	**-**	**-**	**1,854,432**
Total	**3,437,505**	**4,026,640**	**718,112**	**15,015**	**8,197,272**

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

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

	2012 SAR'000	2011 SAR'000
Government and quasi government	**137,905**	-
Corporate	**7,427,788**	7,012,628
Banks and other financial institutions	**631,579**	826,477
Total	**8,197,272**	7,839,105

iii) The outstanding unused portion of commitments as at December 31, 2012, which can be revoked unilaterally at any time by the Bank, amounts to SAR 5,163 million (2011: SAR 7,449 million).

a) Operating lease commitments

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

	2012 SAR'000	2011 SAR'000
Less than one year	**325**	205
One year to five years	**175,337**	48,276
Over five years	**198,334**	300,087
Total	**373,996**	348,568

17. Income from investments and financing activities, net

	2012 SAR'000	2011 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	**7,358**	9,603
Investments in Sukuk	**6,299**	1,200
Murabaha with banks and other financial institutions	**93,065**	84,368
Financing	**1,528,648**	1,089,312
Total	**1,635,370**	1,184,483
Return on time investments:		
Customers' time investments	**(110,410)**	(70,278)
Due to banks and other financial institutions	**(7,833)**	(2,639)
Total	**(118,243)**	(72,917)
Income from investments and financing activities, net	**1,517,127**	1,111,566

18. Fees from banking services, net

	2012 SAR'000	2011 SAR'000
Income on:		
Corporate finance and advisory	**131,110**	178,463
Trade services	**31,851**	38,482
Card services	**83,356**	43,337
Other banking services	**34,995**	16,737
Total fee and other banking services income	**281,312**	277,019
Expense on:		
Card services	**(37,259)**	(18,905)
Other fees	**(1,198)**	(1,490)
Fee from banking services, net	**242,855**	256,624

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

Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Senior executives requiring SAMA no objections	**14**	13	**24,595**	18,194	**7,566**	5,962	**-**	-	**7,566**	5,962
Employees engaged in risk taking activities	**326**	224	**103,972**	84,675	**14,584**	13,348	**-**	-	**14,584**	13,348
Employees engaged in control functions	**107**	95	**37,917**	27,654	**4,703**	3,370	**-**	-	**4,703**	3,370
Other employees	**1,105**	1,077	**215,323**	217,039	**25,682**	32,224	**-**	-	**25,682**	32,224
Outsourcing employees (engaged in risk taking activities)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
	1,552	1,409	**381,807**	347,562	**52,535**	54,904	**-**	-	**52,535**	54,904
Variable compensation accrued			**66,759**	87,365						
Other employee related benefits			**23,695**	10,642						
Total	**1,552**	1,409	**472,261**	445,569	**52,535**	54,904	**-**	-	**52,535**	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 “Board”).

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 adoption by the Bank.
While developing and implementing such 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 1,485 million shares at the year end.

21. Zakat

The Bank has filed its Zakat returns for the years up to and including the financial year 2011 with the Department of Zakat and Income Tax (DZIT).The estimated Zakat for the year ended December 31, 2012 amounted to SAR 47 million in addition to a total amount of SAR 792 million related to prior years which will be deducted from the future dividends to shareholders (SAR 0.56 per share).

22. Cash and cash equivalents

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

	2012 **SAR’000**	2011 SAR’000
Cash in hand	**689,227**	359,352
Balances with SAMA excluding statutory deposit	**403,506**	49,951
Due from banks and other financial institutions maturing within ninety days of acquisition	**5,773,169**	75,994
Total	**6,865,902**	485,297

23. Operating Segments

Operating segments are identified on the basis of internal reports about activities of the Bank that are regularly reviewed by the key decision makers including CEO and the Assets and Liabilities Committee (ALCO), in order to allocate resources to the segments and to assess their 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 of operating assets and liabilities.

The management has revisited the basis of segmentation, whereby the common expenses, income, assets and liabilities, previously grouped under ‘others’ have been reallocated to business units. Accordingly the comparative figures have also been restated.
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.

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:

2012					SAR '000
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	7,522,860	32,754,572	13,267,994	469,027	54,014,453
Total liabilities	15,067,028	11,263,756	10,728,972	290,500	37,350,256
Net income from investments and financing	398,673	814,616	301,592	2,246	1,517,127
Fees from banking services and other income	55,055	163,784	54,049	36,039	308,927
Total operating income	453,728	978,400	355,641	38,285	1,826,054
Charge for impairment on financing	108,426	45,947	-	-	154,373
Depreciation and amortization	66,519	59,891	23,028	816	150,254
Other operating expenses	399,279	243,215	97,695	34,566	774,755
Total operating expenses	574,224	349,053	120,723	35,382	1,079,382
Net operating income / (loss)	(120,496)	629,347	234,918	2,903	746,672
Share of loss from associate	-	-	(13,513)	-	(13,513)
Net income / (loss)	(120,496)	629,347	221,405	2,903	733,159

2011					SAR '000
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	5,089,314	22,507,701	8,880,891	305,460	36,783,366
Total liabilities	10,283,969	3,829,831	6,662,662	112,883	20,889,345
Net income from investments and financing	272,311	587,070	249,835	2,350	1,111,566
Fees from banking services and other income	28,556	218,144	17,102	12,901	276,703
Total operating income	300,867	805,214	266,937	15,251	1,388,269
Charge for impairment on financing	25,956	98,778	-	-	124,734
Depreciation and amortization	40,344	57,108	25,423	871	123,746
Other operating expenses	291,798	261,949	115,621	39,087	708,455
Total operating expenses	358,098	417,835	141,044	39,958	956,935
Net operating income / (loss)	(57,231)	387,379	125,893	(24,707)	431,334
Share of loss from associate	-	-	-	-	-
Net income / (loss)	(57,231)	387,379	125,893	(24,707)	431,334

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

2012					SAR '000
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	**6,179,357**	**31,007,142**	**10,766,685**	**157,286**	**48,110,470**
Commitments and contingencies	**-**	**8,197,272**	**-**	**-**	**8,197,272**
Total	**6,179,357**	**39,204,414**	**10,766,685**	**157,286**	**56,307,742**

2011					SAR '000
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	4,250,060	20,997,338	8,205,343	276,532	33,729,273
Commitments and contingencies	-	7,839,105	-	-	7,839,105
Total	4,250,060	28,836,443	8,205,343	276,532	41,568,378

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 a counterparty may fail to meet its obligations to the Bank and, therefore, could result in a financial loss for the Bank. While credit exposures arise principally from financing and investment, there is 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.

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

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

2012	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	2,764,956	-	-	-	2,764,956
Due from banks and other financial institutions	4,577,837	3,470,694	953,236	6,046	9,007,813
Investments	1,861,953	-	98,290	-	1,960,243
Financing, net	37,186,500	-	-	-	37,186,500
Other assets	1,571,542	-	-	-	1,571,542
Total financial assets	47,962,788	3,470,694	1,051,526	6,046	52,491,054
Financial liabilities					
Due to banks and other financial institutions	1,402,737	461,250	85	550,460	2,414,532
Customers' deposits	32,213,612	-	-	-	32,213,612
Other liabilities	2,344,364	-	-	-	2,344,364
Total financial liabilities	35,960,713	461,250	85	550,460	36,972,508
Commitments and contingencies	8,197,272	-	-	-	8,197,272
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	3,142,477	-	-	-	3,142,477

2011					SAR'000
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash and 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	25,259,909	-	-	-	25,259,909
Other assets	1,237,503	-	-	-	1,237,503
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	2,931,978	-	-	-	2,931,978

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

2012					**SAR'000**
	Kingdom of Saudi Arabia	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Non performing financing, net	**122,125**	**-**	**-**	**-**	**122,125**
Allowances charge for impairment on financing	**281,538**	**-**	**-**	**-**	**281,538**

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	127,734	-	-	-	127,734

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 consolidated income statement.

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 includes 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 profit rate hedging instruments, 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.

Given the asset and liabilities configuration of the Bank, where the profit rate sensitive assets are much greater than rate sensitive liabilities, potential increases in profit rates during the next 12 months will have no material adverse impact on the consolidated statement of comprehensive income of the Bank.

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.

2012						SAR'000
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	2,764,956	2,764,956
Due from banks and other financial institutions	6,528,818	1,892,494	562,538	-	23,963	9,007,813
Investments	-	900,000	-	334,167	726,076	1,960,243
Financing, net	7,033,687	8,231,671	19,250,460	2,670,682	-	37,186,500
Property and equipment, net	-	-	-	-	1,447,824	1,447,824
Other assets	-	-	-	-	1,647,117	1,647,117
Total assets	13,562,505	11,024,165	19,812,998	3,004,849	6,609,936	54,014,453
Liabilities & shareholders' equity						
Due to banks and other financial institutions	2,141,291	-	-	-	273,241	2,414,532
Customer deposits	3,869,247	6,103,293	-	-	22,241,072	32,213,612
Other liabilities	-	-	-	-	2,722,112	2,722,112
Shareholders' equity	-	-	-	-	16,664,197	16,664,197
Total liabilities & shareholders' equity	6,010,538	6,103,293	-	-	41,900,622	54,014,453
Yield sensitivity - On statement of financial position	7,551,967	4,920,872	19,812,998	3,004,849	(35,290,686)	-
Yield sensitivity - Off statement of financial position	3,437,505	4,026,640	718,112	15,015	-	8,197,272
Total Yield sensitivity gap	10,989,472	8,947,512	20,531,110	3,019,864		
Cumulative yield sensitivity gap	10,989,472	19,936,984	40,468,094	43,487,958		

2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
						SAR'000
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
Investments	1,125,391	1,911,390	-	334,000	57,500	3,428,281
Financing, net	2,523,600	2,655,514	11,226,129	8,854,666	-	25,259,909
Property and equipment, net	-	-	-	-	1,379,245	1,379,245
Other assets	-	-	-	-	1,299,822	1,299,822
Total assets	4,051,994	6,800,054	12,565,901	9,188,666	4,176,751	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	331,521	755,432	12,565,901	9,188,666	(22,841,520)	-
Yield sensitivity - Off statement of financial position	2,568,023	3,142,927	2,127,995	160	-	7,839,105
Total yield sensitivity gap	2,899,544	3,898,359	14,693,896	9,188,826		
Cumulative yield sensitivity gap	2,899,544	6,797,903	21,491,799	30,680,625		

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 USD pegged currencies.

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

	2012 SAR'000	2011 SAR'000
Assets		
Cash & balances with SAMA	**24,288**	12,434
Due from banks and other financial institutions	**5,742,717**	3,071,459
Investments	**113,321**	83,988
Financing, net	**168,543**	130,063
Other assets	**52,836**	29,420
Total currency risk on assets	**6,101,705**	3,327,364
Liabilities		
Due to banks and other financial institutions	**551,795**	186,876
Customers' deposits	**7,374,643**	2,243,046
Other liabilities	**114,670**	328,086
Total currency risk on liabilities	**8,041,108**	2,758,008

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

	2012 SAR'000	2011 SAR'000
USD	**(2,734,649)**	(201,718)
Euro	**(1,030)**	(694)
UAE Dirham	**3,067**	(1,468)
BHD	**635,199**	615,479
QAR	**157,555**	157,640
Others	**455**	117
Total	**(1,939,403)**	569,356

c) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities. The Bank's portfolio of investments " available for sale" is regularly marked to market and changes, if any, are taken into the shareholder'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.

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.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2012 and 2011 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 appearing in the consolidated statement of financial position.

2012						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	**2,416,329**	**-**	**-**	**-**	**-**	**2,416,329**
Customers' deposits	**26,142,206**	**6,168,705**	**-**	**-**	**-**	**32,310,911**
Other liabilities	**-**	**-**	**-**	**-**	**2,722,112**	**2,722,112**
Shareholders' equity	**-**	**-**	**-**	**-**	**16,664,197**	**16,664,197**
Total liabilities and shareholders' equity	**28,558,535**	**6,168,705**	**-**	**-**	**19,386,309**	**54,113,549**

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

b) The tables below shows 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.

2012						SAR'000
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,764,956	-	-	-	-	2,764,956
Due from banks and other financial institutions	6,552,781	1,892,494	562,538	-	-	9,007,813
Investments	28,277	900,000	653,812	334,167	43,987	1,960,243
Financing, net	3,210,399	4,694,092	22,419,929	6,862,080	-	37,186,500
Property and equipment, net	-	-	-	-	1,447,824	1,447,824
Other assets	-	-	-	-	1,647,117	1,647,117
Total	12,556,413	7,486,586	23,636,279	7,196,247	3,138,928	54,014,453
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,414,532	-	-	-	-	2,414,532
Customers' deposits	26,110,319	6,103,293	-	-	-	32,213,612
Other liabilities	-	-	-	-	2,722,112	2,722,112
Shareholders' equity	-	-	-	-	16,664,197	16,664,197
Total	28,524,851	6,103,293	-	-	19,386,309	54,014,453
Commitments & contingencies	3,437,505	4,026,640	718,112	15,015	-	8,197,272

2011	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
						SAR'000
Assets						
Cash and 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	2,523,600	2,655,514	11,226,129	8,854,666	-	25,259,909
Property and equipment, net	-	-	-	-	1,379,245	1,379,245
Other assets	-	-	-	-	1,299,822	1,299,822
Total	5,482,178	6,800,054	12,565,901	9,188,666	2,736,567	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

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 is in the process of implementing Business Continuity and Disaster Recovery Program.

28. Sharia'h Non-compliance Risk

Being an Islamic bank, the Bank is exposed to the risk of Sharia'h non-compliance. To mitigate such risk, extensive Sharia'h Policies and procedures are in place. Further the Bank has established a Shaira'h Board and a Sharia'h Compliance Audit Unit to monitor such risk.

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 and 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:

	2012 SAR'000	2011 SAR'000
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing	**215,793**	203,844
Customers' deposits	**4,894,387**	2,819,880
End of service benefit	**6,851**	3,487
Investments	**43,987**	57,500
Mutual funds managed by the Bank	**72,429**	51,319

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

	2012 SAR'000	2011 SAR'000
Income on financing	**21,476**	12,167
Return on time investments	**43,576**	24,683
Directors' remuneration	**2,859**	2,972

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:

	2012 SAR'000	2011 SAR'000
Short-term employees benefits	**40,693**	36,248
End of service benefit	**3,364**	901

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 by the Bank's management. SAMA requires to hold and maintain ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed 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	2012 SAR'000	2011 SAR'000
Credit Risk Weighted Assets	**43,940,575**	32,345,614
Operational Risk Weighted Assets	**2,561,291**	1,733,049
Market Risk Weighted Assets	**4,773,266**	2,216,522
Total Pillar-I Risk Weighted Assets	**51,275,132**	36,295,185
Tier I Capital	**16,608,419**	15,897,254
Tier II Capital	**200,141**	118,699
Total Tier I & II Capital	**16,808,560**	16,015,953
Capital Adequacy Ratio %		
Tier I ratio	**32%**	44%
Tier I + Tier II ratio	**33%**	44%

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, 2012 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 178.5 million (2011: 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 period beginning on or after January 1, 2013.

Standard, and amendments	Effective date	Brief description of changes
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: amortized 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 and 10, 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 & 10 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 15 Rabi Awal 1434H (corresponding to 27 January, 2013).

Basel II
Pillar 3 - Qualitative Disclosure

Basel II - Pillar 3 – Qualitative Disclosure

1. Overview

The Pillar 3 Disclosure for financial year ending 31st December 2012 for Alinma Bank (the Bank) complies with the Saudi Arabian Monetary Agency (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS) in 2009.

2. Scope of Application

The report is prepared after full-consolidation of the Bank and the following fully-owned 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)

3. Medium and Location of Disclosure

The Bank's Pillar 3 disclosure will be made available under the Financial Reports (Basel II section) of the Bank's website at www.alinma.com and as a separate report in the annual financial reports, after the notes to the financial statements.

4. Basis and Frequency of Disclosure

This Pillar 3 disclosure document has been designed to be in compliance with the SAMA's Pillar 3 Guidelines, and is to be read in conjunction with the Bank's Financial Statements for financial year ended 31st December 2012.
The Qualitative Disclosure Requirements are reported annually.

5. Capital Structure

The authorized share capital of the bank is SAR 15 billion consisting of 1.5 billion shares with a nominal value of SAR 10 per share. As of December31, 2012, the shareholders' equity totals SAR 16.664 billion.

5.1. 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: Based in Jeddah, the company is authorized to conduct insurance business in accordance with Sharia'h and SAMA guidelines. The Bank has acquired 28.75% stake in company's capital of SAR 200 million. It commenced commercial operations on 18th June 2012.

5.2. Capital Transferability

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

6. Capital Adequacy

The table below illustrates the various approaches that are adopted at Alinma bank for capital requirements calculation under Basel II in relation to the various risk types under Pillar 1:

Credit Risk	Market Risk	Operational Risk
Standardized Approach (SA)	Standardized Approach (SA)	Basic Indicator Approach (BIA)

The Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2012 stood at 33%.

7. Capital Management

A strong capital position is essential to the Bank's business strategy and competitive position. The Bank's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities.

The Bank seeks to maintain adequate levels of capital in order to:

- Support the underlying risks of the Bank's business;
- Optimize growth; and
- Be able to withstand capital demands under market shocks and stress conditions.

Strategic, business plans and ICAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the banks' Risk Appetite Policy, are assessed and adequate levels of capital are maintained by the Bank to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units (Corporate Banking, Retail Banking and Treasury);
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel II and Basel III guidelines.
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios;

8. Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's ICAAP addresses issues of capital planning, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

At the Group level, the overall capital adequacy is assessed through the ICAAP Framework. The ICAAP Framework was first formalized and approved by the Board in February 2011. As a result the organization has identified material risks and assessed the capital levels consistent with the risks identified.

The ICAAP framework determines the level of capital, required to support the Group's current and projected activities for capital under normal and stressed conditions. The ICAAP report is produced on an annual basis and is approved by the Risk Management Committee (RMC) as well as the Executive Committee (EXCOM) / Board.

8.1. Comprehensive Risk Assessment under ICAAP Framework

Under the ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 (e.g. Residual Risks);
- Risks not taken into account by Pillar 1 (e.g. profit rate risk in banking book, liquidity risk, business/strategic risk, reputational risk and credit concentration risk); and
- External factors, including changes in economic environment and regulations.

8.2. Assessment of Pillar 1 and Pillar 2 Risks

The bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not be easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The Bank's ICAAP then focuses on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the bank. These qualitative measures include the following:

- Adequate governance process through RMC, and EXCOM;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies; and
- Regular monitoring and reporting through various committees and management forums.

8.3. Stress Testing

The Bank's stress testing program was started in 2012. It is embedded in the risk and capital management process. The program serves as a forward looking risk and capital management tool to understand the Bank's risk profile under extreme but plausible conditions. Such conditions may arise from economic, strategic, political and business environmental factors.

Under the Alinma Bank Stress Testing Policy and Framework, approved by the Board in September 2012, the potential unfavorable effects of stress scenarios on the Bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled.

Specifically, the stress test program is designed to:

- Highlight the dynamics of stressed events and the potential implication on the Bank's exposures, liquidity position and reputation;
- Identify key strategies to mitigate the effects of stress events and scenarios; and
- Produce stress results as inputs into the Bank's ICAAP for determination of capital adequacy and capital buffers.

The Stress Test Working Group comprising various risk management teams tables the stress testing reports at the Senior Management and Board committees (RMC, and EXCOM) and discusses the results with regulators during annual bilateral meetings.

9. Risk Management

The risk environment in which the Bank operates changes continuously, caused by a range of factors, from the transactional level to macroeconomic events. The risk environment therefore requires continuous monitoring and assessment. Initiatives under the Bank's BASEL program have been a major catalyst and contributor to the enhancement of risk management practices within the Bank. The risk management framework institutionalized during FY 2011 and FY 2012 is designed to meet these challenges as part of BASEL program.

The Bank's Six Broad Principles of Risk Management

The Six Broad Principles define the key principles on accountability, independence, structure and scope.

1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
3. At Alinma, the Risk Management through the Credit Risk Managers, the Chief Credit Officer and the Chief Risk Officer assume the independent responsibility of reviewing and co-signing the approval through the Credit Committee, of all major credit proposals of the bank which are prepared, sponsored and recommended by the Business Units. In addition, Risk Management provides risk oversight and consultancy to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar 2 of the BASEL regime.
4. Risk management ensures that the core risk policies of the Bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Policy. Also, Risk management is responsible for the execution of various risk policies and related business decisions empowered by the Board.
5. Risk management is functionally and organizationally independent of the business units and other risk taking units within Alinma Bank.
6. Alinma Bank's Board, through the ALCO, RMC and EXCOM, maintains overall responsibility for risk oversight within the Bank.

10. Risk Appetite Policy

The Risk Appetite Policy approved by ALCO, RMC and EXCOM, takes into consideration the Bank's risk taking-capacity, its desired financial position based on institutional and regulatory guidelines, the strength of its core earnings and the resilience of its reputation and brand. The risk appetite defines the key risk measures of the Bank and periodically reports to RMC, ALCO and to the EXCOM through a Risk Appetite Dashboard for review and action.

10.1. Credit Risk Management

Risk appetite for credit risk is an expression of the amount of risk that the Bank is willing to take in pursuing its strategic objectives. Credit risk arises when the bank deals with an obligor or counterparty and the obligor or counterparty fails to fulfill his part of the agreement. In mitigating credit risk the bank performs extensive due diligence on the obligor or counterparty analyzing both qualitative and quantitative (usually financial and business) information. The bank uses internal rating tools to determine an Obligor Risk Rating (ORR) that reflects the bank's judgment regarding the probability of default. Ratings by the major credit rating agencies are also used whenever available.

Through the Credit Risk Officers, the Chief Credit Officer and the Chief Risk Officer, the Credit risk is controlled through continuous monitoring and assessment of the obligor or counterparty's ability to meet obligations through a regular calling program, visits to project sites and a formal annual review of the obligors' financial position and business status. The credit process seeks to identify problems early on and to take effective remedial action, if needed, to protect the bank's interests. The bank sets credit limits to restrict the exposure to a single obligor or counterparty. Further restrictions are defined by type of transaction, tenor, repayment terms, and conditions precedent and subsequent. The bank also mitigates its credit risk by requiring tangible collateral where necessary.

The bank also seeks to control portfolio risk - various risks that arise from concentrations that are sensitive to certain parameters such as economic activity, geography, collateral, risk rating etc. To mitigate these concentration risks the bank seeks to diversify its portfolio through customer acquisition across economic sectors and by diversifying the type of financing in terms of the short term working capital financing and the typically longer term fixed capital expenditure and project financing needs of its clients. Obligor and Sector Financing Concentrations are monitored by Risk Management at least quarterly through the Risk Dashboard and are regularly reviewed by the Chief Credit Officer, the Chief Risk Officer and the Head of Corporate Banking. These are reviewed annually by the Risk Management Committee. Concentrations in terms of funding sources are also monitored and diversification strategies in terms of reducing dependency on the large funds providers are regularly followed. The following financing portfolio concentrations are monitored on an ongoing basis:

- Business Segments;
- Economic Sectors;
- Single Customer Groups/ Obligor /Counterparty;
- Banks & Non-Bank Financial Institutions;
- Risk Rating;
- Types of Collaterals (specifically those secured by real estate)

The bank continually updates its credit polices to reflect economic, market and legal realities.

10.2. Market Risk Management

The Bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The bank continually monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Division operates within "Treasury Investment Limits." Risk appetite covering Market Risk is subject to the following drivers:

- Capital Adequacy Ratio (CAR)
- SAMA Liquidity Ratio
- Net Stable Funding Ratio (NSFR)
- Financing-to- Deposits Ratio
- Corporate Financing Concentration
- Concentration of Funding Sources

10.3. Operational Risk Management

The Bank's operational risk appetite is defined in the Risk Appetite policy and expressed through the following measures and limits as part of bi-annual stress testing exercise:

a. Impact and Materiality in terms of limits;
b. Tolerance and thresholds that reflects Bank's tolerance for acceptable risks and operational losses; and
c. Profile for the purpose of identifying material operational risks and losses.

To support the Bank's risk tolerance, each business / support sector is required to set their respective key risk indicators (KRIs) facilitated by the Operational Risk Management Department along with associated policies, and procedures.

11. Credit Risk

11.1. Overview

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 (CBG)
- Retail Banking Group (RBG)
- Treasury Group (TG)

Each credit risk taking unit has developed certain policies and guidelines governing their credit risk taking functions which are contained in the CBG Risk Policy, RBG Risk Policy and Treasury Risk Policy documents.

11.2. Provisions for Loans/Financing

The bank makes provisions according to guidelines set by SAMA. It therefore creates specific provisions for impaired accounts based on an assessment of the likelihood that the specific obligor will not meet his obligations. The bank also makes collective provisions on the remaining assets of the portfolio based on assessment of the probability of default and the loss in case of default. The periodic specific and collective provisioning strategies are reviewed and agreed by the Chief Credit Officer, the Chief Risk Officer, the Heads of the Business Units, the Chief Financial Officer and by the CEO.

12. Market Risk

12.1. Introduction

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices.

12.2. Management of Market Risk

Delegated by the Board, ALCO is responsible for the policies, limits and control used in managing market risk. The Bank has an approved Treasury Risk Policy that clearly defines policies, procedures, and limits of market risk exposures.

The primary objective is to manage volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, RMC, ALCO, the Board of Directors and the national supervisor.

12.2.1. Currency Risk

Currency risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The Treasury Risk Policy has set limits on net open positions by currency groups. There are limits for USD, Other G10 Currencies, GCC Currencies, and all the other currencies. The Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a smaller extent in United States Dollars (USD) or in USD-pegged currencies.

12.2.2. Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of the Bank's investments in equities. The Bank's portfolio of securities available for sale is regularly marked to market and positive/negative changes are taken into the Bank's equity, and the comprehensive income.

12.3. Capital Treatment for Market Risk

Alinma Bank computes the minimum capital requirements against market risk using the Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risks are the primary risk factors experienced in the Bank's activities.

12.4. Stress Testing

The Bank performs Stress Testing biannually to further evaluate potential losses. By evaluating the size of the unexpected losses, the Bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios, and undertake the appropriate measures. Scenarios are updated and may be redefined on an ongoing basis to reflect current market conditions. The Stress Test results are reported to Senior Management, RMC and EXCOM to facilitate and manage risk with more transparency.

13. 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. Operational risk excludes credit risks – the risks arising from financial transactions entered into with obligors or counterparties in which the obligor or counterparty fails to honor its part of the transaction.

The Bank has an independent Operational Risk Team under Risk Management Group which is tasked with monitoring and controlling the Operational Risks 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 established as part of ERM program roll out. In addition, the Bank is in the process of implementing Business Continuity and Disaster Recovery program. This will reduce the potential Operational risk.

13.1. Management and Monitoring of Operational Risk

The established ORM Framework is designed to maintain dependency between the risk management and the risk owners represented by the various business groups within the bank. While keeping the responsibility of managing the business within the business groups common grounds were established to involve the operational risk management team in facilitating the risk identification, measurement and assessing of risks and relevant controls, including documenting and tracking the risk mitigation plans, or risk acceptance.

During the year, the operational risk management team conducted specialized data gathering through meetings with business heads and senior management endeavoring to gain a clear understanding of business directions by cascading the relevant business unit strategic objectives. The approach is designed to associate the management directions, with the allocated operational risk appetite, and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.
Covering all business and support units within the bank specific risk profiles containing key and significant risks presented at their residual values was arrived at after detailed assessment and testing of the respective controls. A detailed risk heat-map is formed in consultation with business group management to draw their attention to significant and key risks that requires management attention and action on a priority basis.

The key methods used to manage and monitor operational risks are as follows:

13.1.1. Risk & Control Self-Assessment (RCSA)

The risk register and corresponding action plans are maintained and updated regularly. The review cycle involves discussions with the top management to seek directions on risk acceptance and treatment including decision for taking actions to review and to improve the control environment.
The progress on risk mitigation action plans and the movement of risk measurement across the risk heat-map is also monitored and discussed with the respective management.

13.1.2. Key Risk Indicators (KRIs)

A special series of workshops were conducted to produce the first list of KRIs. Based on their nature these are defined and assessed in coordination with the respective business and risk owners addressing mainly critical processes. The process includes setting means of collecting required data, analysis and management expectations for certain indicators set as acceptable threshold to create means of leading or lagging warning signals. It also involves consolidating certain common KRIs that requires actions at the bank wide level. The bank aims to improve on the KRI list to create meaningful and business relevant risk indicators.

13.1.3. Loss Data Management (LDM)

The Operational Risk team monitors and maintains a detailed register of all operational risk losses and near-miss incidents. These are linked to the respective risk profiling and key risk register, guiding the business management to direct their efforts to improve their controls and the respective services or products. Those are classified and reported based on the Basel II loss events type.

13.1.4. Business Continuity Management (BCM)

The Bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices, and SAMA requirements and its scope extends to include:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The Bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events, protect key assets, and continue critical processes. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

13.1.5. Outsourcing

Complying with SAMA regulations on outsourcing, the Operational Risk Management team is involved in reviewing the risk assessment related to outsourcing of material banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

13.1.6. Anti-Fraud Management

The bank has established an Enterprise Anti-Fraud program under the ORM in coordination with several internal stakeholders, aiming to prevent and reduce to the minimum losses arising from internal and external frauds. The bank wide anti-fraud awareness program has already been conducted and the Bank is preparing for a bank wide fraud risk assessment exercise which will be linked to the existing risk profile and control registers.

13.2. Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL II regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Bank. The Bank aims to move towards the Standardized Approach (SA) for Operational Risk Capital Charge Calculation in due course.

14. 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 an independent Sharia'h Board and a Sharia'h Compliance Audit Unit under Sharia'h Group.

14.1. Sharia'h Governance

The Sharia'h Compliance Framework was formulated to enable Alinma Bank to communicate its strategies towards the effective and efficient Sharia'h compliance risk management throughout the organization in line with the Sharia'h principles. The Sharia'h Compliance Framework is the enterprise-wide Sharia'h management plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia'h governance is affected through the following functions:

- Sharia'h Review;
- Sharia'h Advisory & Research;
- Sharia'h Audit;

14.2. Sharia'h Board

The operation of the Islamic Bank is governed by Sharia'h law of Islamic Banking which stipulates that any licensed Islamic bank is required to provide for the establishment of Sharia'h advisory body to advise the bank on the operations of its business in order to ensure that it does not involve any element which is Sharia'h non-compliant.

The Sharia'h Board is responsible to:

- advise the Board on Sharia'h matters in its business operations;
- endorse Sharia'h Compliance Manual and Framework;
- endorse and validate relevant documentations;
- advise the Bank on the computation and distribution of Zakat;
- assist related parties on Sharia'h matters and
- provide written Sharia'h opinion.

14.3. Rectification Process of Sharia'h Non-Compliance Income

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia'h Non-compliance has already been put in place.

Key measures undertaken by the bank for managing Sharia'h Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;
- Mitigation and control; and
- Monitoring and reporting.

15. 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. To mitigate this risk, management actively pursues the diversification of funding sources; assets are priced taking liquidity into consideration; the Bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

15.1. Liquidity Risk Management Approach

In terms of day-to-day liquidity management, the Treasury Business Support unit ensures sufficient funding to meet its intraday payment and settlement obligations on a timely basis.

The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short- and long-term cash flow via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained at the required minimum.
- Conducting biannually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the plans.

All liquidity policies and procedures are covered by the Treasury Risk Policy which is subject to review and approval by the Executive Committee of the Board (EXCOM).

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 overnight funds through special investment arrangement facilities with SAMA (i.e. Murabaha with SAMA).

16. Profit Rate Risk in Banking Book

Profit rate risk arises from changes in profit rates which affect either the fair values or the future cash flows of profit-rate sensitive financial instruments in the Banking Book.

16.1. 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 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 financing requires a higher profit rate).

17. Risk Based Compensation – Road Ahead

In line with SAMA Rules on Compensation practices, a review was conducted with an external consultant during mid of Year 2012 which resulted in the following :-

- Bank's compensation policy has been drafted
- Changes to Nomination & Compensation Committee identified
- Charter of the Bank's Nomination & Compensation Committee (NCC) drafted

- Remuneration governance & changes to pay practices in the Banking sector (An update to NCC to provide guidance on latest FSB principles & Basel disclosures)
- A possible road-map for change has been planned which is under discussion with the Senior Management. It is expected for the changes to be implemented within 2-3years time-frame.

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 Badiah (Gentlemen & Ladies)	Dharat Al-Badiah	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 Aziziyyah (Gentlemen & Ladies)	Al Aziziyyah	Al Nasr
Al Ghadeer (Gentlemen & Ladies)	Al Ghadeer	King Abdulaziz
Al Nassem	Al Nassem	Hassan Bin Thabit
Al Rayaan (Gentlemen & Ladies)	Al Rayaan	Imam Shafi
King Faisal (Gentlemen & Ladies)	King Faisal	King Abdullah Road
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
Al Nozha (Gentlemen and Ladies)	Al Nozha	Imam Saud Bin Abdulaziz Bin Mohammed
Al Shifa'a Derab Road	Al Shaifa'a	Derab
Al Shifa'a (Gentlemen and Ladies)	Al Shifa'a	Ibn Taymiya
Al Yasmine (Gentlemen and Ladies)	Al Yasmine	Anas Ibn Malek
Al Rowda (Gentlemen and Ladies)	Al Rowda	Intersection of Al Hassan Ibn Ali and Obada Ibn Al Samit
Qurtoba (Gentlemen and Ladies)	Qurtoba	Dammam High Way, Khalid Ibn Al Walid Exit

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 Safa (Gentlemen & Ladies)	Al Safa	Prince Miteb
Al Marwa (Gentlemen & Ladies)	Al Marwa	Hira'a

Alinma Bank Branches

Makkah

Branch	Area	Street
Makkah (Gentlemen & Ladies)	Al Aziziyyah	Al Aziziyyah - 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

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 Yarmouk (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

Al Rass

Branch	Area	Street
Al Rass (Gentlemen and Ladies)	King Abdulaziz	King Abdulaziz

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

Tabouk

Branch	Area	Street
Tabouk (Gentlemen and Ladies)	Al Morouj	King Abdullah

Sikaka

Branch	Area	Street
Sikaka (Gentlemen and Ladies)	Al Shalhoub	King Fahad

Najran

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

Alinma ATMs

The bank has a kingdom-wide network of more than 650 state-of-the-art ATMs. For more information about the bank's branches and ATMs, please visit our website www.alinma.com or call the Alinma Phone service at 800 120 8000.