مصرف الإنماء
alinma bank
for our growth

Annual Report 2013

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 Muqrin 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 2014 operational year, we at Alinma Bank look back with pride at our record of achievements over the past years; and we look forward to even greater achievements 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 to implementing its plans and strategies. By doing so, Alinma will continue to deliver, to its partners, exemplary, innovative, Shariah-compliant products and services.

We will continue the process of growth in order to make Alinma Bank a leading institution and preferred financial partner in providing distinctive banking services through the best working environment to assist bank partners in fulfilling their goals, aspirations and ambitions.

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

Alinma Bank ... For Our Growth

Vision Mission Values

The Bank's Vision

To be your preferred financial partner.

The Bank's Mission

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

The Bank's Values

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

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 under Commercial Registration No. 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

Mr. Mohammed Sulaiman Abanumi
Member

Mr. Homoud Abdullah AlTuwaijery
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 myself and my colleagues on the Alinma Bank Board of Directors, the Alinma Bank Annual Report for the fiscal year that ended on December 31, 2013. Thanks to the hard work and dedication displayed by Alinma staff, this was a year filled with achievements and strong financial results, and the bank has remained successful in delivering to its partners, exemplary, innovative, world-class, Shariah-compliant products and services. All of this gives us confidence about the future of the bank.

The results for the 2013 fiscal year were promising. Net profits increased by 37%, amounting to SAR 1,005 million. The bank's assets reached SAR 63,001 million, compared to SAR 54,014 million at the end of 2012, an increase of 17%. Likewise, total operating income during 2013 amounted to SAR 2,279 million, compared to SAR 1,826 million in 2012, an increase of 25%. The financing portfolio grew to SAR 44,924 million on December 31, 2013, compared to SAR 37,187 on December 31, 2012, an increase of 21%. Partner deposits rose to SAR 42,763 million at the end of 2013, compared to 32,214 million in 2012, an increase of 33%.

I would like to take this opportunity to extend my thanks and appreciation to those board members whose terms ended in May 2013. They oversaw significant achievement by the bank, achievements that were lauded by the public, the press, analysts and international ratings agencies. I would also like to take this opportunity to welcome the new board members, wishing them all the best. My thanks and appreciation are extended to the CEO/managing director and the bank's staff for the great efforts exerted throughout the 2013 fiscal year to implement our plans and achieve our goals.

Last, but not least, I would like to extend my thanks and appreciation to the Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz Al Saud, HRH the Crown Prince, Prince Salman Ibn Abdulaziz Al Saud and HRH the Second Deputy Premier, Prince Muqrin Ibn Abdulaziz Al Saud for the wise policies pursued by the Kingdom and the support they have extended to the Saudi national economy and the banking sector. I would also like to thank the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, the Capital Market Authority, other related authorities, and the bank's founders for their notable and sincere efforts during the process of establishment and launch.

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

A Message from the Managing Director/CEO

The growth and development of Alinma Bank continues. Through our establishment phase and through each of our successive years of expansion, the bank's staff has exerted every effort to ensure that Alinma remains a viable, healthy and thriving institution. We spare no effort in our mission to exceed our partners' expectations and to provide them with exemplary products and services. This is essential, as partnership is a founding principle of the bank and it is through our partners that Alinma will achieve continued success.

2013 has ended; however, our hard work, determination and quest for excellence and success continue. We have begun to reap the fruits of our efforts as illustrated in the strong financial results detailed in this report, which show both strong growth in operations and the bank's partner base. Our main objective has always been to help our partners fulfill their aspirations and ambitions, and we could not be successful in doing so without the concerted efforts exerted by the board of directors, executive management and employees.

The "Banking Redefined" slogan and its accompanying campaign defined 2013 for Alinma Bank. Through this campaign, the bank introduced a new world of banking services to Alinma partners, provided through both Alinma's network of uniquely designed, partner-centric branches and its comprehensive electronic channel offerings. At the end of 2013, the number of bank branches reached 96 (55 for men and 41 for women). All branches are equipped with the latest modern banking technology in order to provide partners with first-rate service. Additionally, in 2013, the number of Alinma ATMs across the kingdom rose to 829.

Alinma's self-service banking continues to exceed expectations, with world-class technology, 24-7 availability and the promise of transactional accuracy and security. Service offerings include Alinma Internet, Alinma Mobile and Alinma Phone. Furthermore, in 2013, Alinma launched its smartphone application, which boasts cross-platform compatibility with Apple, Android, Windows Phone and Blackberry operating systems. It is also notable that the application reflects the full functionality of the Alinma Internet website.

As always, Alinma has worked diligently to provide partners with technological solutions that enhance their baking experience and give them the flexibility to execute transactions round-the-clock, at times and locations that suit them.

In 2013, Alinma also continued to display its ongoing commitment to community service. A founding member of the Riyadah Institute, Alinma was successful in helping to provide training, counseling and other assistance to SME's through the institute. The bank also collaborated with a range of other institutions in the civil sector, engaging in community service, helping to create, directly and indirectly, jobs for Saudis.

During 2013, the bank concluded a number of important agreements including an agreement with the Saudi Company for Particle Therapy to finance the construction of the Saudi Center for Proton Therapy Technology. This is the first specialized center for proton therapy technology in the Gulf and the broader Middle East. The center will contribute to the treatment of a large number of cancer cases, reducing the amount of expensive, fatiguing travel that patients often must endure when seeking treatment.

In terms of products offered to retail partners, the bank concluded a cooperative agreement with Visa to provide Shariah-compliant Visa services to Alinma cardholders. Alinma Bank also pioneered smart-chip card use in the Middle East, Central Europe and Africa with its issuance of Visa smart-chip debit and credit cards. As a result, the bank was recognized by Visa International for having the best performing debit card portfolio in the kingdom.

It is worth mentioning that one of the most important strategic roles of Alinma Bank is to support the development of various vital sectors and to keep pace with the development strategies implemented by the government of the Custodian of the Two Holy Mosques. Towards this end, Alinma has endeavored to pursue beneficial projects across the kingdom that will help lead Saudi Arabia into an ever brighter future.

The achievements of Alinma Bank are many and our successes are ongoing. Alinma will continue to pursue sustainable growth and to uphold our commitment to our country, shareholders and partners.

Abdulmohsen Bin Abdulaziz Al-Fares
Managing Director/CEO

Key Accomplishments of 2013

Alinma Partners: Growth and Confidence

Alinma Bank grew rapidly during 2013, as indicated by the following:

- The number of partners increased by 39%.
- Retail Deposits increased by 68%.
- Retail Financing partners increased by 57%.
- Retail Financing increased by 52%.
- The number of ATM cards issued rose by 18%.
- The number of transactions executed through ATMs rose by 28%.
- The number of partners registered with Alinma Phone increased by 19%.
- The number of registered Alinma Internet users increased by 73%.
- The number of transactions executed via Alinma Internet increased by 47%.
- The number of registered Alinma Mobile users increased by 161%.
- The number of transactions executed through Alinma Mobile increased by 125%.
- Total Retail assets grew by 49%.

Branch Network and ATMs: Serving Alinma Partners

During 2013, the bank launched several new branches and ATMs. The number of branches launched in 2013 amounted to 9 (6 for men and 3 for ladies) bringing to 96 the total number of Alinma branches at the end of 2013 (55 for men and 41 for ladies). The number of ATMs rose from 650 in 2012 to 829 by the end of 2013, an increase of 28%.

Human Capital: Recruitment & Development

Human capital is the basic element of achievement; and the bank would not be able to fulfill its vision and mission without qualified staff. Therefore, the bank pays great attention to recruitment and training, and actively seeks out talented Saudis to join its growing team. During 2013, the bank recruited 315 male and female employees, bringing the total number of employees at the close of 2013 to 1665, with a Saudization rate of 86%. A total of 1,751 employees have participated in the 8,245 training days organized by the bank during 2013, including cognitive, behavioral and skill training courses in banking, finance, legal, administration, and information systems, provided by specialized consulting firms. Other courses were also provided on products and services offered by the bank.

Innovative Solutions and Enhanced Systems Performance and Stability

The bank has continued to develop advanced, secure banking systems as part of its vision to be the preferred financial partner for all. It also has improved the performance and availability of current banking systems to be able to accommodate the increased number of branch and ATM operations that resulted from the growth of Alinma's partner base. This approach positively impacted the achievements made by the bank in following areas:

Infrastructure:

- Upgrading the T24 core banking system to increase performance rates and improve system functionality.
- Upgrading and developing the bank's network to improve performance and ensure service continuity.
- Renovating ATM switch servers to improve performance and obtain higher capacity for operations at reduced operational cost.
- Renovating infrastructure software that connects the bank's applications in order to improve performance and increase system stability.

New Applications and Services:

- Remittance system
- Alinma smartphone application
- Updated version of Alinma Investment's Alinma Tadawul service
- Updated version of Alinma Internet Corporate service
- Trade finance system for corporate baking
- Payroll system
- Global Limit service on Alinma Internet
- Wage Protection System, which is compatible with Ministry of Labor requirements

Certifications and Awards:

- **ISO 27001** certification for the security of online banking information and the bank's official website
- **DSS 2.1-C1** certification, related to information security of credit cards
- **Wage Protection System** certification from the Ministry of Labor
- **The Best Bank in Credit Data Quality** certificate from SIMAH Data Quality

Striving for Leadership in the Service of Corporate Partners

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

During 2013, the Corporate Banking group conducted a series of marketing and training courses for corporate and retail partners, which covered the following areas:

- Trade Operations: Documentary Credits and Guarantees
- Electronic Banking Services and Cash Management
- Introducing the group's products
- Alinma Tokio Marine for Cooperative Insurance
  More than 200 partners participated in the kingdom's central, eastern and western regions.

Business Sector

- More than 600 companies have been registered for e-banking and cash management services.
- The new payroll service via e-banking has been provided to partners.

Government and Charity Sectors

- 50 entities representing government agencies and charities were recruited during 2013.

Retail Banking: Modern Products and Services

During 2013, the bank introduced several new products and services to enhance partner service. Most notable was Alinma's smartphone application which boasts cross-platform compatibility (Apple, Android, Windows Phone, and BlackBerry) and accessibility to sight-impaired partners. Alinma stands as the first bank in the kingdom to launch a service with such capabilities.

Other notable service offerings in 2013 included access to the bank's Global Limit service via Alinma Internet and Alinma Mobile, online registration with the Saudi Credit Bureau (SIMAH), and the launch of the bank's 24-7 branch at King Khalid International Airport.

Given the importance of communication with Alinma partners, the bank also developed an electronic system for receiving partner suggestions and complaints through Alinma Internet, Alinma Phone and direct communication with branches. The bank also inaugurated, for the first time in Saudi Arabia, a customer satisfaction service available through all of the bank's service channels. New services were also added to the Alinma Phone service, which assist partners in executing transactions without having to speak with a partner service agent.

Banking Redefined

Since its establishment, the bank has strived to redefine the concept of Shariah-compliant banking. This has been done by providing exemplary, innovative products and services and by delivering them with transparency, clarity, quality and excellence.

During 2013, the bank embarked upon an ad campaign with the slogan "Banking Redefined," which aimed at spreading the spirit of optimism and hope for the future. To do this, the bank launched products and services that promoted trust between Alinma and its partners. The bank also conducted research in an effort to better understand the requirements of its partners so that Alinma can more effectively assist them in the achievement of their goals and aspirations. Following on from this effort, the bank continued to deliver world-class financial solutions, products and services that help Alinma move forward toward its vision of becoming the preferred financial partner for all.

The various efforts exerted by the bank were fruitful. This was evident in the wide recognition of these efforts by the local community, Alinma partners, as well as international publications. *Arabian Business* magazine ranked the bank's brand among the 50 most powerful brands in the Kingdom of Saudi Arabia. The magazine attributed the strength of the bank's brand to the significant steps taken by the bank, within a short period, to grow its branch and ATM networks. Additionally the magazine pointed to the bank's efforts to provide comprehensive 24/7 e-services. Both of these helped to establish and solidify the bank's brand within Saudi banking sector.

Additionally, the Alinma was named the fastest growing bank in the Kingdom by *Banker Middle East* magazine for the second consecutive year. Alinma won the award based on its financial performance, rapid growth, ability to compete and its status amongst other banks operating in the Kingdom of Saudi Arabia.

Treasury Group: Strong Results through Prudent Strategies

Alinma Bank treasury operations again yielded strong results in 2013, as the group effectively managed assets and liabilities, met liquidity demands, fulfilled regulatory requirements, and ensured balance sheet stability.

Furthermore, the bank continued to reinforce business relationships with public and private financial institutions to achieve its objectives, particularly with respect to diversifying liquidity sources and reinforcing services offered to its partners.

Currently, the bank provides its partners with distinctive services, especially with respect to liquidity management and meeting different demands, including the provision of foreign currency at competitive rates.

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. During 2013, Alinma Investment introduced a number of new products and services, which included:

Alinma Multi Assets Defensive Fund: The Fund aims to develop capital over the long run by investing specific percentages of subscriptions of unit holders in financial market tools available in local and Arabian equity markets, namely Murabaha and shares transactions, Sukuk, structured products, and in various categories of Shariah-compliant investment funds with increased focus on Murabaha deals.

Alinma Multi Assets Aggressive Fund: The fund aims to develop capital over the long run by investing specific percentages of subscriptions of unit holders in financial market tools available in local and Arabian equity markets, namely Murabaha and shares transactions, Sukuk, structured products, and in various categories of Shariah-compliant investment funds with increased focus on shares investment.

Shariah Compliance Service: Shariah-compliant shares across international markets based on Shariah approved standards.

Shariah Lists Service: Allowing partners to select certain trading criteria, not only the criteria defined by Alinma Investment.

Technical Analysis Service: Providing investors with daily technical analysis of shares of companies traded on the Saudi and GCC stock exchanges.

Alinma Investment continued to provide private portfolio management and advisory services to private and public companies. It 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 develop capital over the short term while providing utmost protection for capital compared with other investments. Alinma Investment will continue to offer new and innovative products and funds going forward.

Alinma Investment also participated in the provision of financial advisory and underwriting services for the issuance of a Sukuk worth SAR 7.5 billion to SADARA Petrochemical Company, a joint venture between Saudi Aramco and Dow Petrochemicals. Alinma Investment also provided financial advice to a number of listed and unlisted companies and arranged bank financing for such companies. Additionally, Alinma Investment provided public subscription and other services to individuals and enterprises.

Social Responsibility

Programs, Events and Social Sponsorships of Alinma Bank

Since its establishment, Alinma Bank has played a major role in community service. Below is a brief summary of the bank's contribution to supporting and serving social programs:

- **Education Financing Service**
  Alinma Bank provides lending to partners that allows partners to pay tuition and other educational fees in installments without paying administrative fees or profit margins to the bank.
- **Participation in Employment and Career Day Exhibitions**
  Alinma Bank participated in a number of employment and career day exhibitions, most notably at King Saud University, the Institute of Public Administration, Yamama College, and King Fahad University for Petroleum and Minerals.
- **National Entrepreneurship Institute (Riyadah - www.riyadah.com.sa)**
  Alinma Bank is a founding member of the National Entrepreneurship Institute, which is concerned with the creation and implementation of guidance curricula and programs to develop small enterprises, the creation of jobs for young Saudis (males and females) and the support of innovation and creativity.
- **Training**
  Alinma Bank has contributed to the training of a large number of students as part of the UP-CO-TRAINING program, which is a coordinated, cooperative effort of a number of Saudi universities.
- **Disabled Children's Association**
  The Disabled Children's Association provides valuable services for special needs children in the kingdom. Alinma has been honored to support the association though the purchase and distribution of holiday greetings cards designed by the association's children.
- **Charitable Society for Orphan Care (Insan)**
  Alinma Bank cooperates with the organization by listing it amongst the charitable organization to which partners can donate through Alinma Bank.
- **ARAMCO Summer Festival**
  Alinma Bank has participated annually in the ARAMCO Summer Festival, which contributes to raising social, cognitive, health and volunteer work awareness. The bank's participation included the construction of a model Alinma branch, where it provided educational programs and activities for children related to the basics of banking.
- **"The Road to Market" Program – Al-Majd Satellite Channel**
  The bank contributed to the program, which aims at informing young Saudis of the objectives and mechanisms of action of the Institute of Entrepreneurship. The program also highlights the experiences of young businessmen, the support they have received and their successes in the labor market in order to promote initiative and creativity among youth and enable them to benefit from the services provided by the institute.
- **Awareness Programs and Messages via ATMs**
  Alinma Bank developed and delivered various awareness programs and messages in collaboration with the Ministry of Communication and Information Technology and the Saudi Credit Bureau (SIMAH).
- **Blood Donation Campaign**
  Alinma Bank sponsored a blood donation campaign in collaboration with King Faisal Specialist Hospital.
- **Alinma Bank Participation in the National Campaign for the Relief of Syrian People**
- **Community Awareness**
  Alinma Bank sponsored educational programs designed to educate community members about the appropriate manner to obtain real estate financing. Alinma developed and distributed brochures entitled "Compare and Choose" via local newspapers.
- **Services for Special Needs Partners**
  For the first time in Saudi Arabia, Alinma Bank made its website (www.alinma.com) and branch ATMs accessible to sight-impaired individuals while maintaining full functionality of the services as well as transactional security.

Directors' Report

The Board of Directors of Alinma Bank ("the Bank") is pleased to present the Fifth Annual Report encompassing the activities for the fiscal year ended December 31, 2013.

This report provides information about the Bank's operations, financial results and future plans together with the 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 (96) locations (55 for men and 41 for women) as of end of 2013, 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 to 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:

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

Credit Rating of the Bank

Fitch Rating has reaffirmed the credit rating for Alinma Bank as (A -) with a stable outlook. This rating distinguishes Alinma, despite its relatively short operational history.

Financial Highlights

Financial highlights for the last five years are given below:

(SAR Million)

Financial Position	**2013**	2012	2011	2010	2009
Financing, net	**44,924**	37,187	25,260	15,593	1,112
Investments (including due from banks and FIs)	**10,372**	10,968	7,431	8,427	14,846
Total Assets	**63,001**	54,014	36,783	26,549	17,306
Customers' Deposits	**42,763**	32,214	17,776	8,316	1,498
Total Liabilities	**46,169**	37,350	20,889	11,048	1,701
Shareholders' Equity	**16,832**	16,664	15,894	15,501	15,605

(SAR Million)

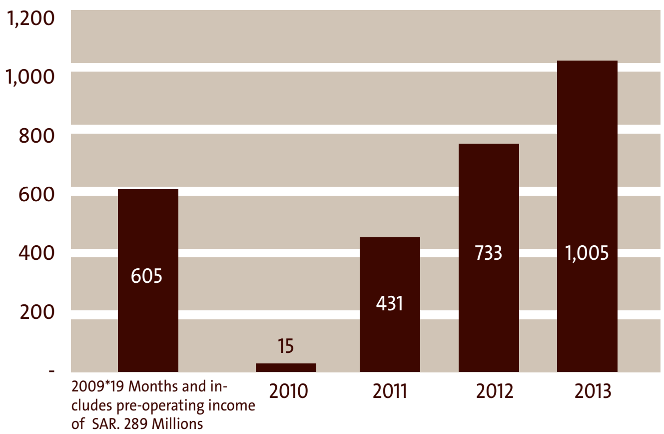
Operating Results	**2013**	2012	2011	2010	2009 (19 Months)
Income from investment and financing activities, net	**1,835**	1,517	1,112	525	945
Fee from banking and other services	**444**	309	276	137	9
Total operating income	**2,279**	1,826	1,388	662	954
Total operating expenses	**990**	925	832	644	638
Net income before provisions	**1,289**	901	556	18	316
Provision for financing and other assets	**274**	154	125	3	-
Pre-operating income, net	**-**	-	-	-	289
Share of loss from associate	**10**	14	-	-	-
Net Income	**1,005**	733	431	15	605

Operating Results

The Bank registered net income of SAR 1,005 million for the financial year ended December 31, 2013 compared to SAR 733 million for the financial year 2012

Net Income

(SR. Millions)

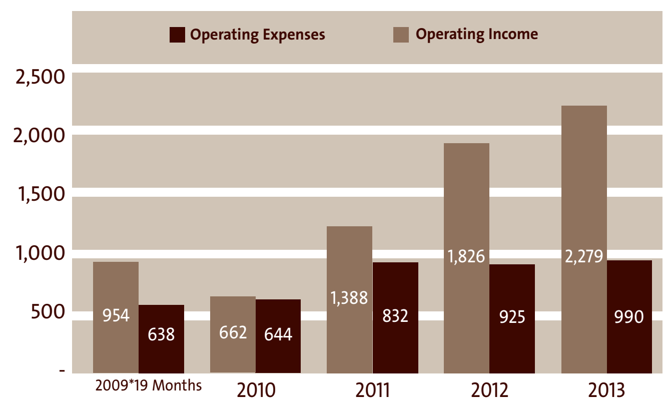


Total operating income for the year ended December 31, 2013 amounted to SAR 2,279 million compared to SAR 1,826 million for financial year 2012 reflecting a significant growth of 25%. Income from investment and financing activities during the year 2013 increased to SAR 1,835 million reflecting a growth of 21% over SAR 1,517 million last year. The above growth is directly attributable to significant increase in core banking business during the year 2013.

Operating expenses during the year increased by 7% to SAR 990 million compared to SAR 925 million for the last year. The Bank also made additional provision against financing and other assets of SAR 274 million compared to SAR 154 million for the year 2012. Besides, the bank continued with its strategic expansion plan by adding 6 branches for men, 3 locations for women and 179 ATMs during the year 2013.

Total Revenue & Expenses

(SR. Millions)



Earnings per Share

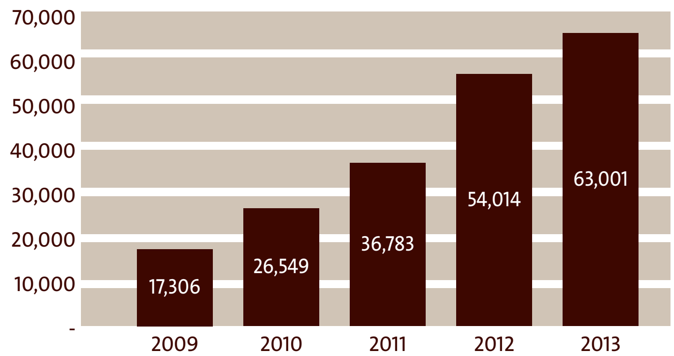
Earnings per share for the year 2013 amounted to SAR 0.68 (6.8% of nominal value of the share) compared to SAR. 0.49 for the year 2012 (4.9% of nominal value of the share).

Financial Position

The bank's assets grew by 17% to SAR 63,001 million during the year 2013 compared to SAR 54,014 million as of December 31, 2012, on the back of 33% growth in deposits from SAR 32,214 million at the end of year 2012 to SAR 42,763 million as of December 31, 2013.

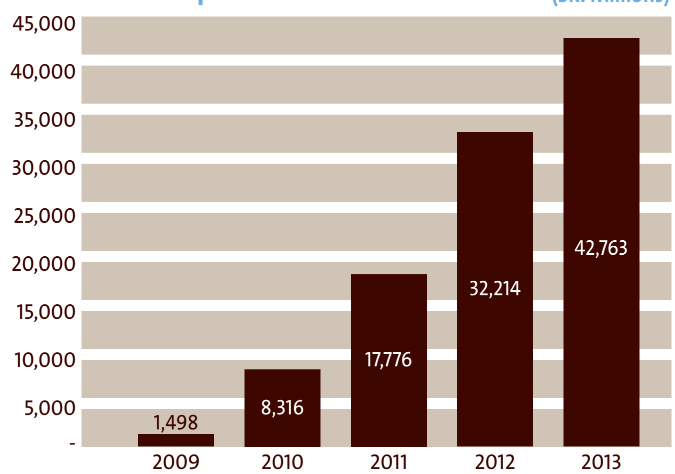
Total Assets

(SR. Millions)



Customers Deposits

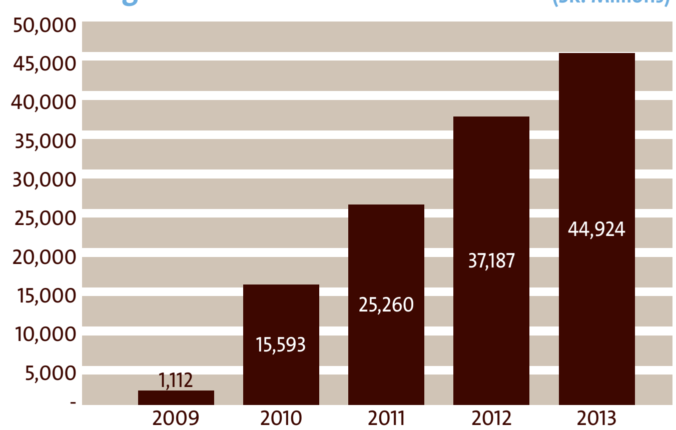
(SR. Millions)



On the other hand, the financing portfolio also grew by 21% from SAR 37,187 by end of year 2012 to SAR 44,924 million by December 31, 2013.

Financing

(SR. Millions)



Shareholder's equity and Capital Adequacy

During the year 2013, an amount of SAR 894.4 million has been set off against the Retained Earnings being the Zakat paid for prior years up to 2012. Accordingly, the shareholders' equity stood at SAR 16,832 million at end of year 2013 compared to SAR 16,664 million as at December 31, 2012. Alinma's Capital Adequacy ratio declined from 33% at the end of year 2012 to 28% by the end of 2013 mainly due to the growth in the financing portfolio. The current Capital Adequacy ratio of Alinma is much higher than the minimum SAMA regulatory and Basel requirements for banks as 8%.

Financial Position by Segments

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

2013 - (SAR Million)

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Total
Total Assets	11,182	36,953	14,361	505	63,001
Total Liabilities	25,239	6,465	14,155	310	46,169
Total Operating Income	631	1,125	482	41	2,279

2012 - (SAR Million)

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Total
Total Assets	7,522	32,755	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

Geographic Analysis of Revenue

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

(SAR Million)

Total revenue	Western Region	Eastern Region	Central Region	Total
Financial year ended December 31, 2013	645	149	1,485	2,279
Financial year ended December 31, 2012	373	92	1,361	1,826

Branches and ATM networks

The Bank during the year 2013 opened 6 branches for men and 3 locations for women, bringing the total number of locations to 55 for men and 41 for women. In addition, the Bank also added 179 new ATMs bringing the total to 829 ATMs by end of the year.

Borrowing by the Bank

Total outstanding funding from banks as of December 31, 2013 amounting to SAR 200 million and are maturing maximum by January, 20th 2014. The aggregate maximum exposure during the year was SAR 2,876 million.

Dividend Distribution Policy

As stipulated in article (41) of Alinma bank's 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 items that BOD may consider appropriate in accordance with the Banking Control Law and SAMA directives, as follows:

1. The shareholders' 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	2013	2012
	SAR Millions	
Net income for the year	**1,005**	733
Transfer to statutory reserve (25% of net income)	**(251)**	(183)
Transfer to general reserve	**-**	-
Zakat	**(895)**	-
Retained earnings-brought forward	**1,339**	789
Retained earnings-carried forward	**1,198**	1,339

Board of Directors

The Bank is being managed by a Board of directors consisting of nine (9) members who are appointed by the shareholders in Ordinary General Assembly for a period of 3 years. The members of the Board have been elected for a second term during the Ordinary General Assembly meeting held on March 31, 2013. The term of the current Board commenced from May 21st 2013 and has held six (6) meetings during the financial year 2013 as shown in the table below:

Name	Membership Status	Other Directorship	Meeting Date						Total
			01/01/2013	27/01/2013	31/03/2013	02/06/2013	29/09/2013	22/12/2013	
Eng. AbdulAziz Abdullah Al-Zamil (Chairman)	Independent	Al-Sahara Co., Sipchem Co. & Al-Zamil Group	√	√	√	√	√	√	6
Mr. AbdulMohsen Abdul Aziz Al-Fares (Managing Director/CEO)	Executive	NTCC Deyaar Al KhozamaReal-estate Development Co. Alinma Tokio Marine Co	√	√	√	√	√	√	6
Dr. Suliman Mohammed Al-Turki	Non- executive	National Water Company	√	√	√	√	√	√	6
Mr. Saad Ali Al-Kathiry	Non- executive	Saudi Industrial Investment Group	√	√	√	√	√	√	6
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	Non- executive	-	√	√	√	√	√	√	6
Dr. Saad Attia Al-Ghamdi	Independent	-	√	-	√	-	√	√	4
Dr. Ibrahim Fahad Al- Ghufaili	Independent	-	√	√	√	√	√	√	6
Dr. Abdulrehman Hamad Al-Harkan*	Independent	-	√	-	√	-	-	-	2
Mr. Mohammed Yousef Naghi*	Independent	Eimaar the Economic City	√	-	-	-	-	-	1
Mr. Hamoud Abdullah Al Twijri**	Independent	-	-	-	-	√	√	√	3
Mr. Mohammed Sulaiman Abanumi**	Independent	Malath Cooperative Insurance & Reinsurance Co.	-	-	-	√	√	√	3

* Membership ended on 20/05/2013
** Membership started on 21/05/2013

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 eight (8) meetings during the financial year 2013 as shown in the table below:

Name	Meeting Date								Total
	01/01/2013	03/02/2013	24/02/2013	18/03/2013	28/04/2013	14/07/2013	27/10/2013	22/12/2013	
Eng. AbdulAziz Abdullah Al-Zamil (Chairman)	√	√	√	√	√	√	√	√	8
Mr. AbdulMohsen Abdul Aziz Al-Fares	√	√	√	√	√	√	√	√	8
Dr. Suliman Mohammed Al-Turki	√	√	√	√	√	√	√	√	8
Mr. AbdulMohsen AbdulAziz Al-Hussain*	√	√	√	√	√	-	-	-	5
Dr. Ibrahim Fahad Al-Ghufaili*	√	√	√	√	√	-	-	-	5
Mr. Saad Ali Al-Kathiry**	-	-	-	-	-	√	√	√	3
Mr. Mohammed Sulaiman Abanumi**	-	-	-	-	-	-	√	√	2

* Membership ended on 20/05/2013
** Membership started on 21/05/2013

Benefits & Compensations Committee

The Benefits and Compensations Committee has been formed by the Board of Directors and is composed of four (4) 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.

Three meetings were held during the financial year 2013, and were attended by members as shown in the table below:

Name	Meeting Date			Total
	22/01/2013	18/03/2013	15/12/2013	
Mr. Hamoud Abdullah AlTwijri (Chairman)*	-	-	√	1
Mr. AbdulMohsen AbdulAziz Al-Hussain*	-	-	√	1
Dr. Ibrahim Fahad Al-Ghufaili*	-	-	√	1
Mr. Mohammed Sulaiman Abanumi*	-	-	√	1
Dr. Suliman Mohammed Al-Turki**	√	√	-	2
Mr. AbdulMohsen AbdulAziz Al-Fares**	√	√	-	2
Mr. Saad Ali Al-Kathiry**	√	√	-	2
Dr. AbdulRahman Hamad Al-Harkan**	√	-	-	1
Mr. Mohammed Yousef Naghi**	-	-	-	0

* Membership started on 21/05/2013
** Membership ended on 20/05/2013

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 2013 as shown in the following table:

Name	Meeting Date				Total
	09/01/2013	08/04/2013	06/07/2013	06/10/2013	
Dr. Saad Attia Al-Ghamdi (Chairman)	√	√	√	√	4
Dr. Saud Muhammad Al Nemer *	√	√	-	√	3
Mr. Khalid Muhammad Al Obudi *	-	√	√	√	3

* 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	-	-	9,191,148
Allowances	58,000	322,785	4,849,560
Annual & Periodic remuneration schemes	300,000	2,100,000	11,520,277
Incentive Plans	-	-	-
Other compensation or benefits 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:

- Dr. Abdul Rahman Ben Saleh Al Atram - Chairman
- Dr. Abdullah Ben Wakeel Al Sheikh - Deputy
- 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 bank during 2013:

- Saudi Arabian Monetary Agency (SAMA) SAR. 92,300
- Ministry of Municipalities and Rural Affairs SAR. 230,000

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, 2013 amounted to SAR 67.9 million while the withholding tax payable at the end of financial year 2013 amounted to SAR 43,585.

Staff Benefits

Benefits and compensation of employees are paid in accordance with the provisions of the Saudi Labor Law. As at December 31, 2013, the accumulated balance for the end of service benefits amounted to SAR 50.4 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. Furthermore, the Bank offered its eligible employees two types of Share-Based payments programs as detailed in note 31 of the consolidated financial statements of the bank.

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							
S	Member's Name	Beginning of the year		End of the year		Net change	% change
		No. of Share	Sukuks	No. of Share	Sukuks		
1	Eng. AbdulAziz Abdullah Al-Zamil	900,572	-	990,572	-	90,000	10%
2	Mr. AbdulMohsen AbdulAziz Al-Fares	400,000	-	400,000	-	0	0%
3	Dr. Suliman Mohammed 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	10,286	-	10,286	-	0	0%
6	Dr. Ibrahim Fahad Al- Ghufaili	131,747	-	131,747	-	0	0%
7	Mr. Hamoud Abdullah AlTwijri**	-	-	284,000	-	-	-
8	Mr. Mohammed Sulaiman Abanumi**	-	-	39,002	-	-	-

** Membership started by 21/05/2013

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							
s	Senior executive's Name	Beginning of the year		End of the year		Net change	% change
		No. of Share	Sukuks	No. of Share	Sukuks		
1	Mr. Emad AbdulRahman AlButairi	859	-	859	-	0	0%
2	Dr. Sulaiman Ali AlHudaif	119,449	-	0	-	(119,449)	(100%)
3	Dr. Muhammad Abdullah Alwadh	11,000	-	9,000	-	(2,000)	(18%)
4	Mr. Saad AbdulMohsin AlYaqoub	276,407	-	276,407	-	0	0%
5	Mr. Haidar Ali Rashed	50,000	-	0	-	(50,000)	(100%)
6	Mr. Abdulaziz Mohammad Al-Onaizan	70,000	-	70,000	-	0	0%
7	Dr. Mohammed Sultan Alsehali*	-	-	715	-	-	-

* Hiring date is 26/01/2013

Internal Control System

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

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

Corporate Governance

In general, the bank operated in accordance with the provisions and guidance of the Corporate Governance Regulations issued by the Capital Market Authority and Saudi Arabian Monetary Agency (SAMA). However, the Bank did not implement following voluntary 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 (32) 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 2013.

Gratitude:

The Board of Directors is pleased to express its pride on the bank's performance during the year 2013 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 would like to express their gratitude to the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud, to his royal highness the Deputy Prime Minster Prince Salman bin Abdul Aziz Al Saud and to his royal highness the second deputy premier, adviser and special envoy of Custodian of the Two Holy Mosques Prince Muqrin bin Abdul Aziz Al Saud for the extensive efforts exerted by them for the country and the citizens. May Allah bless them and guide them to lead the Kingdom in best manner and protect our precious country in all aspects.

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, 2013, the consolidated statements of income, 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 38. We have not audited note 34, nor the information related to "BASEL III Pillar 3 and Capital Structure disclosures" cross referenced therein, which are 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.

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Opinion

In our opinion, the consolidated financial statements:

- present fairly, in all material respects, the financial position of the Bank as at December 31, 2013, and its 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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2 Rabi Al Akhir 1435H
February 2, 2014

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

إرنست ويونغ
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT December 31	Notes	2013 SAR'000	2012 SAR'000
ASSETS			
Cash and balances with Saudi Arabian Monetary Agency	4	**4,972,467**	2,764,956
Due from banks and other financial institutions	5	**4,972,181**	9,007,813
Investments	6	**5,399,466**	1,960,243
Financing, net	7	**44,923,623**	37,186,500
Property and equipment, net	8	**1,474,912**	1,447,824
Other assets	9	**1,258,583**	1,647,117
TOTAL ASSETS		**63,001,232**	54,014,453
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	**200,736**	2,414,532
Customers' deposits	11	**42,762,623**	32,213,612
Other liabilities	12	**3,205,942**	2,722,112
TOTAL LIABILITIES		**46,169,301**	37,350,256
SHAREHOLDERS' EQUITY			
Share capital	13	**15,000,000**	15,000,000
Statutory reserve	14	**697,448**	446,259
Net change in fair value of 'available for sale' investments		**80,862**	33,784
Other reserves		**10,250**	-
Retained earnings		**1,197,992**	1,338,775
Treasury shares	15	**(154,621)**	(154,621)
TOTAL SHAREHOLDERS' EQUITY		**16,831,931**	16,664,197
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**63,001,232**	54,014,453

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED December 31	Notes	2013 SAR'000	2012 SAR'000
Income from investments and financing	17	2,020,699	1,635,370
Return on time investments	17	(185,864)	(118,243)
Income from investment and financing activities, net	17	1,834,835	1,517,127
Fees from banking services, net	18	272,598	242,855
Exchange income, net		30,829	21,417
Income from FVIS financial instruments, net		16,734	2,837
Gain on sale of available for sale investments, net		94,951	30,174
Dividend income		21,707	11,253
Other operating income		7,421	391
Total operating income		2,279,075	1,826,054
Salaries and employee related expenses	19	492,591	472,261
Rent and premises related expenses		92,083	81,226
Depreciation and amortization	8	154,141	150,254
Other general and administrative expenses		250,843	221,268
Charge for impairment of assets		274,224	154,373
Total operating expenses		1,263,882	1,079,382
Net operating income		1,015,193	746,672
Share of loss from associate	6.3	(10,436)	(13,513)
Net income for the year		1,004,757	733,159
Basic and diluted earnings per share (SAR)	20	0.68	0.49

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME FOR THE YEAR ENDED December 31	Notes	2013 SAR'000	2012 SAR'000
Net income for the year		**1,004,757**	733,159
Other comprehensive income to be reclassified to consolidated statements of income in subsequent periods:			
Net change in fair value of 'available for sale' investments		**142,029**	67,191
Net gain realized on 'available for sale' investments		**(94,951)**	(30,174)
Total comprehensive income for the year		**1,051,835**	770,176

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31

SAR'000

2013	**Notes**	**Share capital**	**Statutory reserve**	**Net change in fair value of available for sale investments**	**Other reserves**	**Retained earnings**	**Treasury shares**	**Total**
Balance at the beginning of the year	**13**	**15,000,000**	**446,259**	**33,784**	**-**	**1,338,775**	**(154,621)**	**16,664,197**
Net income for the year		**-**	**-**	**-**	**-**	**1,004,757**	**-**	**1,004,757**
Net change in fair value of available for sale investments		**-**	**-**	**142,029**	**-**	**-**	**-**	**142,029**
Net amount realized on available for sale investments		**-**	**-**	**(94,951)**	**-**	**-**	**-**	**(94,951)**
Total comprehensive income		**-**	**-**	**47,078**	**-**	**1,004,757**	**-**	**1,051,835**
Transfer to statutory reserve	**14**	**-**	**251,189**	**-**	**-**	**(251,189)**	**-**	**-**
Zakat	**9.1**	**-**	**-**	**-**	**-**	**(894,351)**		**(894,351)**
Employee share plan reserve		**-**	**-**	**-**	**10,250**	**-**	**-**	**10,250**
Balance at the end of the year		**15,000,000**	**697,448**	**80,862**	**10,250**	**1,197,992**	**(154,621)**	**16,831,931**

SAR'000

2012	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Other reserves	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

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS For the years ended December 31	Notes	2013 SAR' 000	2012 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**1,004,757**	733,159
Adjustments to reconcile net income to net cash from/(used in) operating activities			
Depreciation and amortization	8	**154,141**	150,254
Loss on disposal of property and equipment, net		**3,932**	-
Charge for impairment on financing		**274,224**	154,373
Income from FVIS financial instruments, net		**(16,734)**	(2,837)
Employees share based plan reserve		**10,250**	-
Share of loss from associate	6.3	**10,436**	13,513
		1,441,006	1,048,462
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	**(503,389)**	(668,745)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**1,506,340**	692,690
Investments		**(3,385,847)**	1,494,379
Financing		**(7,970,143)**	(12,080,965)
Other assets		**(450,389)**	(161,989)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,213,796)**	(28,344)
Customers' deposits		**10,554,420**	14,437,328
Other liabilities		**481,789**	2,046,356
Net cash from /(used) in operating activities		**(540,009)**	6,779,172
INVESTING ACTIVITIES			
Acquisition of property and equipment		**(219,120)**	(218,833)
Proceeds from disposal of property and equipment		**33,959**	-
Net cash used in investing activities		**(185,161)**	(218,833)
FINANCING ACTIVITY			
Zakat paid		**(100,000)**	(179,734)
Net cash used in financing activity		**(100,000)**	(179,734)
Net increase/(decrease) in cash and cash equivalents		**(825,170)**	6,380,605
Cash and cash equivalents at the beginning of the year		**6,865,902**	485,297
Cash and cash equivalents at end of the year	22	**6,040,732**	6,865,902
Income received from investments and financing		**1,917,476**	1,521,450
Return paid on time investments		**147,456**	116,594
Dividend received		**21,707**	11,253
Supplemental non-cash information:			
Net changes in fair value less realized gain on available for sale investments		**47,078**	37,017

The accompanying notes from 1 to 38 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 55 branches (2012: 49) 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"), available for sale (AFS) investments and employees share based programs.

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 (note 3h), depreciation/amortization of property and equipment (3i), actuarial valuation (3s) and assessment of control over investees and fair valuation of financial instruments (3v).

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.

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, 2012, except for the accounting policies described at paragraph 3(j), 3(r) and the adoption of the following relevant new standards and amendments to the existing standards that are applicable to the Bank during 2013:

Standards and amendments	Effective date	Brief description of changes
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 12 "Disclosure of Interests in Other Entities"	January 01, 2013	IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
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, a framework and sets out disclosure requirements for fair value measurement. 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.
Amendments to IAS 1 "Presentation of financial statements"	January 01, 2013	Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.
Amendments to IFRS 7 Financial Instruments: Disclosures	January 01, 2013	Amendments require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

These adoptions have no material impact on the consolidated financial statements other than certain additional disclosures. 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 by the Banks for the accounting years beginning on or after January 1, 2014 (note 37).

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 the entities that are controlled by the Bank. The Bank controls an entity when, it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

When the Bank has less than a majority of the voting or similar rights of an investee entity, it considers relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other voters of the investee entity.
- Rights arising from other contractual arrangements.
- Bank's current and potential voting rights.

The Bank re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the consolidated statement of income from the effective date of acquisition or up to the effective 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 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 to settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required by any accounting standard.

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 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, net

Fees from banking services that are not an integral part of the effective yield calculation on the financial assets are recognized when the related service is provided. Management, Administration, Advisory and Arrangement fees are recognized based on the applicable service contracts.
Fees and commission expense relate mainly to transaction and service fees, and 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 amortised cost. Except for investments held as FVIS, incremental direct transaction cost is also added to the fair value of investment upon initial recognition. Premiums are amortised and discounts accreted using the effective yield basis and charged to consolidated statement of 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 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 and are expensed through consolidated statement of income. Dividend income on financial assets held as FVIS is reflected as “Income from FVIS financial instruments, net” 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, changes in profit rates 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 (OCI). On de-recognition, any cumulative gain or loss previously recognized in OCI is charged to income in the consolidated statement of 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 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 provision 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. The provision is estimated based on various factors including obligor's credit rating, probability of default, structural weaknesses or deterioration in cash flows.

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 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 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. If such evidence exists, an impairment loss is recorded in consolidated statement of income. 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. On de-recognition, any gain or loss previously recognised in equity is transferred to consolidated statement of income for the year.

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, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Depreciation is charged from the month of addition and up till the month preceding disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of 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. Other real estate

The Bank, in the ordinary course of business, acquires certain real estate properties in settlement of due financing. Such properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such properties.

Subsequent to initial recognition, any write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income

k. Financial Liabilities

All customer deposits and amount 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 income.

l. Guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees, standby letter of credits 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 “charge for impairment”, in the consolidated statement of income.

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

m. 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.

n. 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 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.

o. 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 an original maturity of ninety days or less from the date of acquisition.

p. 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 expired.

q. Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short term cash bonus or share based plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided to the Bank and the obligation can be estimated reliably.

r. Share-based payments

The Bank offers its eligible employees two types of plans (the "Plans"). Brief description of the Plans as approved by SAMA is as follows:

Employee Share Participation Scheme (ESPS)

Under the terms of ESPS, the eligible employees are offered shares at a pre-determined strike price on the grant date. Deductions are made on a monthly basis from the employee salary over the vesting period of three years. On the completion of the vesting period, should the employees decide not to exercise their options, they will be entitled to receive their contribution along with any profit earned thereon.

Employee Share Grant Scheme (ESGS)

Under the terms of ESGS, eligible employees are granted shares with a vesting period of 3-5 years. At the maturity of the vesting period, the Bank delivers the underlying allotted shares to the employee.

The cost of shares in the schemes is measured by reference to the fair value at the grant date. The management is of the view that the fair value at grant date approximates its market value.

The cost of the schemes is recognized over the period during which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for the schemes at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a reporting period represents the movement in cumulative expense recognized as at the beginning and end of that period.

s. 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.

t. 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 retained earnings/future dividends and hence not charged to the consolidated statement of income. Zakat is recorded as and when paid.

u. 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.

v. Investment management services

The Bank provides investment management services to its customers, through its subsidiary which includes management of certain mutual funds. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. Fee earned are disclosed in consolidated statement of income. The Bank's share of investments is included under 'available for sale' investments in the consolidated statement of financial position.

4. Cash and balances with Saudi Arabian Monetary Agency (SAMA)

	2013 SAR'000	2012 SAR'000
Cash in hand	**987,697**	689,227
Statutory deposit	**2,175,612**	1,672,223
Cash management account with SAMA	**1,700,000**	270,000
Current account	**1,944**	112
Others	**107,214**	133,394
Total	**4,972,467**	2,764,956

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 does not form part of cash and cash equivalents.

5. Due from banks and other financial institutions

	2013 SAR'000	2012 SAR'000
Current accounts	**151,080**	23,963
Murabahas with banks and other financial institutions	**4,821,101**	8,983,850
Total	**4,972,181**	9,007,813

6. Investments

	Notes	2013 SAR'000	2012 SAR'000
Murabahas with SAMA, (at amortized cost)		**3,550,000**	900,000
Available for sale investments	6.1	**1,708,007**	987,979
Held as FVIS investments	6.2	**107,908**	28,277
Investment in associate	6.3	**33,551**	43,987
Total	6.4	**5,399,466**	1,960,243

6.1 Available for sale investments

	2013 SAR'000	2012 SAR'000
Sukuks	**1,087,117**	334,167
Equities	**228,783**	418,077
Others	**392,107**	235,735
Total	**1,708,007**	987,979

The above investments are mainly in quoted securities and include investment amounting to SAR 261.7 million (2012: SAR 98.3 million) in funds operating outside the Kingdom of Saudi Arabia.

6.2 Held as FVIS investments

These are investments in quoted equities and funds 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).

	2013 SAR'000	2012 SAR'000
Opening balance	**43,987**	57,500
Share of undistributed loss	**(10,436)**	(13,513)
	33,551	43,987

6.4 Analysis of investments by type

	2013 SAR'000	2012 SAR'000
Fixed-rate investments	**3,550,000**	900,000
Floating-rate investments	**1,087,117**	334,167
Equities	**315,155**	446,355
Others	**447,194**	279,721
Total	**5,399,466**	1,960,243

6.5 Analysis of investments by counter-parties

	2013 SAR'000	2012 SAR'000
Government and quasi government	**3,661,440**	1,189,821
Corporate	**1,738,026**	770,422
Total	**5,399,466**	1,960,243

6.6 Analysis of investments by credit quality

	2013 SAR'000	2012 SAR'000
Investment Grade	**4,637,117**	1,234,167
Equities and others	**762,349**	726,076
Total	**5,399,466**	1,960,243

7. Financing, net (at amortized cost)

SAR'000					
2013	**Performing**	**Non-performing**	**Total**	**Allowance for impairment**	**Net**
Retail	**9,386,549**	**190,653**	**9,577,202**	**(129,818)**	**9,447,384**
Corporate	**35,748,812**	**111,829**	**35,860,641**	**(55,915)**	**35,804,726**
Total	**45,135,361**	**302,482**	**45,437,843**	**(185,733)**	**45,252,110**
Collective provision					**(328,487)**
Financing, net					**44,923,623**

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

7.1 Movement in allowance for impairment of financing:

2013	SAR'000		
	Retail	**Corporate**	**Total**
Balance at the beginning of the year	**77,985**	**-**	**77,985**
Provided during the year	**55,128**	**55,915**	**111,043**
Bad debts written off	**(339)**	**-**	**(339)**
Recoveries of amounts previously provided	**(2,956)**	**-**	**(2,956)**
Balance at the end of the year	**129,818**	**55,915**	**185,733**
Collective provision	**46,863**	**281,624**	**328,487**
Total	**176,681**	**337,539**	**514,220**

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

7.2 Credit quality of financing portfolio:

For the purpose of 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	2013 SAR'000	2012 SAR'000
1 - 4	Investment Grade	**17,124,721**	20,023,958
5 - 6	Below Investment Grade	**18,552,174**	11,002,850
7	Watch list	**-**	-
		35,676,895	31,026,808
	Unrated exposure (Retail)	**9,377,205**	6,182,155
Total		**45,054,100**	37,208,963

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):

2013		**SAR'000**	
	Retail	**Corporate**	**Total**
From 1 day to 30 days	**7,544**	**71,917**	**79,461**
From 31 days to 90 days	**1,800**	**-**	**1,800**
From 91 days to 180 days	**-**	**-**	**-**
More than 180 days	**-**	**-**	**-**
Total	**9,344**	**71,917**	**81,261**

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

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

2013				SAR'000
	Performing	Non-Performing	Allowance for impairment	Financing, net
Government and quasi government	**9,608,615**	**-**	**-**	**9,608,615**
Manufacturing	**4,744,659**	**-**	**-**	**4,744,659**
Electricity, water, gas & health services	**958,723**	**-**	**-**	**958,723**
Building, construction and real estate	**11,917,266**	**-**	**-**	**11,917,266**
Services	**1,878,354**	**-**	**-**	**1,878,354**
Consumer financing	**9,386,549**	**190,653**	**(129,818)**	**9,447,384**
Commerce	**4,317,700**	**111,829**	**(55,915)**	**4,373,614**
Others	**2,323,495**	**-**	**-**	**2,323,495**
	45,135,361	**302,482**	**(185,733)**	**45,252,110**
Collective provision				**(328,487)**
Financing, net				**44,923,623**

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

7.4 Collateral

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

The Bank held collateral of SAR 39,012 million (2012: SAR 28,284 million) against financing.

7.5 Financing includes Ijarah as follows:

	2013 SAR'000	2012 SAR'000
Less than 1 year	**730,797**	644,251
1 to 5 years	**6,535,945**	6,067,954
Over 5 years	**13,460,079**	9,839,950
Gross receivables from Ijarah	**20,726,821**	16,552,155
Unearned future finance income on Ijarah	**(4,880,848)**	(4,339,563)
Specific provision	**(608)**	(1,583)
Net receivables from Ijarah	**15,845,365**	12,211,009

8. Property and equipment, net

					SAR'000
	Land and buildings	Leasehold improvements	Furniture and equipment	**Total 2013**	Total 2012
Cost:					
Balance at beginning of the year	646,088	226,423	1,005,839	1,878,350	1,659,517
Additions	67,800	28,805	122,515	219,120	218,833
Disposals	-	-	(54,155)	(54,155)	-
Balance at end of the year	**713,888**	**255,228**	**1,074,199**	**2,043,315**	**1,878,350**
Accumulated depreciation:					
Balance at beginning of the year	12,922	57,423	360,181	430,526	280,272
Charge for the year	9,722	24,160	120,259	154,141	150,254
Disposals	-	-	(16,264)	(16,264)	-
Balance at end of the year	22,644	81,583	464,176	568,403	430,526
Net book value-as at December 31, 2013	**691,244**	**173,645**	**610,023**	**1,474,912**	
Net book value-as at December 31, 2012	633,166	169,000	645,658		1,447,824

Property and equipment includes work in progress as at December 31, 2013 amounting to SAR 93 million (2012: SAR 98 million).

Furniture and equipment includes information technology-related assets as follows:

Information technology related assets:	Tangible	Intangible	Total SAR'000
Cost	396,302	558,986	955,288
Accumulated depreciation/amortization	(164,374)	(221,616)	(385,990)
Net book value-as at December 31, 2013	**231,928**	**337,370**	**569,298**
Net book value-as at December 31, 2012	223,633	362,280	585,913

9. Other assets

	Note	2013 SAR'000	2012 SAR'000
Accrued income receivable on:			
- Due from banks and financial institutions and investments		**51,897**	56,878
- Financing		**502,669**	396,372
Total		**554,566**	453,250
Zakat paid/accrued on behalf of shareholders	9.1	**-**	792,310
Prepaid rental		**32,406**	23,746
Advances to suppliers		**2,368**	20,366
Other real estate	9.2	**90,000**	-
Other prepayments		**40,022**	31,463
Others		**539,221**	325,982
Total		**1,258,583**	1,647,117

9.1. Zakat amounting to SAR 894.4 million related to the years up to and including financial year 2012 have been set-off with retained earnings.
9.2. This represents the properties acquired in settlement of financing dues from a customer (2012: NIL).

10. Due to banks and other financial institutions

	2013 SAR'000	2012 SAR'000
Murabahas with banks and other financial institutions	**200,000**	2,141,291
Others	**736**	273,241
Total	**200,736**	2,414,532

11. Customers' deposits

i) Customers' deposits include the following:

	Note	2013 SAR'000	2012 SAR'000
Demand		**21,999,085**	19,511,453
Customers' time investments	11.1	**20,488,205**	9,972,540
Others	11.2	**275,333**	2,729,619
Total		**42,762,623**	32,213,612

11.1 It represents Murabaha and Mudaraba with customers.
11.2 Others represent cash margins for letters of credit and guarantees.

ii) The above includes foreign currency deposits as follows:

	2013 SAR'000	2012 SAR'000
Demand	**1,339,464**	2,262,822
Customers' time investments	**4,796,824**	2,510,284
Others	**47,879**	2,601,537
Total	**6,184,167**	7,374,643

12. Other liabilities

	2013 SAR'000	2012 SAR'000
Accrued profit payable on:		
- Customers' time investments	**68,186**	29,152
- Due to banks and other financial institutions	**39**	665
Total	**68,225**	29,817
Accrued expenses	**133,226**	152,340
Outward drafts payable	**2,450,592**	2,036,334
Accounts payable	**92,589**	86,816
Advance rentals	**448,117**	377,747
Others	**13,193**	39,058
Total	**3,205,942**	2,722,112

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2012: 1,500 million shares) of SAR 10 each.

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

	2013	2012
	Percentage	
Public Pension Agency ("PPA")	**10.71**	10.71
Public Investment Fund ("PIF")	**10.00**	10.00
General Organization for Social Insurance ("GOSI")	**10.00**	10.00
General public and others	**69.29**	69.29
Total	**100.00**	100.00

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 251.19 million (2012: SAR 183.3 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.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 201 3 there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2013, the Bank had capital commitments of SAR 84.5 million (2012: SAR 93.8 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 collaterised by the underlying assets to which they relate, and therefore have significantly lower 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.

Commitments to extend credit represent the unused portion of approved credit, principally in the form of financing, guarantees and letters of credit. With respect to these commitments, the Bank is exposed to an insignificant potential credit risk as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded

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

2013					SAR'000
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	961,931	851,138	5,953	-	1,819,022
Letters of guarantee	412,543	1,612,662	550,578	16,468	2,592,251
Acceptances	221,980	14,386	-	-	236,366
Irrevocable commitments to extend credit	3,145,333	-	-	-	3,145,333
Total	**4,741,787**	**2,478,186**	**556,531**	**16,468**	**7,792,972**

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

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

	2013 SAR'000	2012 SAR'000
Government and quasi government	**713,035**	**137,905**
Corporate	**6,427,098**	**7,427,788**
Banks and other financial institutions	**652,839**	**631,579**
Total	**7,792,972**	**8,197,272**

iii) The outstanding unused portion of commitments as at December 31, 2013, which can be revoked unilaterally at any time by the Bank, amounts to SAR 9,426 million (2012: SAR 5,163 million).

d) Operating lease commitments

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

	2013 SAR'000	2012 SAR'000
Less than one year	**556**	325
One year to five years	**172,620**	175,337
Over five years	**197,690**	198,334
Total	**370,866**	373,996

17. Income from investments and financing activities, net

	2013 SAR'000	2012 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	**25,193**	7,358
Investments in Sukuk	**17,552**	6,299
Murabaha with banks and other financial institutions	**59,410**	93,065
Financing	**1,918,544**	1,528,648
Total	**2,020,699**	1,635,370
Return on time investments:		
Customers' time investments	**(179,217)**	(110,410)
Due to banks and other financial institutions	**(6,647)**	(7,833)
Total	**(185,864)**	(118,243)
Income from investments and financing activities, net	**1,834,835**	1,517,127

18. Fees from banking services, net

	2013 SAR'000	2012 SAR'000
Income on:		
Corporate finance and advisory	**149,692**	131,110
Trade services	**24,333**	31,851
Card services	**120,592**	83,356
Other banking services	**37,864**	34,995
Total fee and other banking services income	**332,481**	281,312
Expense on:		
Card services	**(57,600)**	(37,259)
Other fees	**(2,283)**	(1,198)
Fee from banking services, net	**272,598**	242,855

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**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Senior executives requiring SAMA no objections	**14**	14	**24,831**	24,595	**9,022**	7,566	**-**	-	**9,022**	7,566
Employees engaged in risk taking activities	**348**	326	**109,396**	103,972	**17,655**	14,584	**-**	-	**17,655**	14,584
Employees engaged in control functions	**120**	107	**54,972**	37,917	**7,522**	4,703	**-**	-	**7,522**	4,703
Other employees	**1,183**	1,105	**228,314**	215,323	**26,287**	25,682	**-**	-	**26,287**	25,682
Outsourcing employees (engaged in risk taking activities)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
	1,665	1,552	**417,513**	381,807	**60,486**	52,535	**-**	-	**60,486**	52,535
Variable compensation accrued			**45,471**	66,759						
Other employee related benefits			**29,607**	23,695						
Total	**1,665**	1,552	**492,591**	472,261	**60,486**	52,535	**-**	-	**60,486**	52,535

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 sound compensation policies for adoption by the Bank.
While developing and implementing such policies, the Bank has sought 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 were 1,485 million shares at the after accounting for treasury shares.

21. Zakat

The Bank has filed its Zakat returns for the years up to and including the financial year 2012 with the Department of Zakat and Income Tax (DZIT). The estimated Zakat for the year ended December 31, 2013 amounted to SAR 67.9 million.

22. Cash and cash equivalents

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

	2013 SAR'000	2012 SAR'000
Cash in hand	**987,697**	689,227
Balances with SAMA excluding statutory deposit	**1,809,158**	403,506
Due from banks and other financial institutions maturing within ninety days of acquisition	**3,243,877**	5,773,169
Total	**6,040,732**	6,865,902

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 operating assets and liabilities.

The Bank's reportable segments are as follows:

a) Retail banking

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

b) Corporate banking

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

c) Treasury

Murabahas with banks, investments and treasury services.

d) Investment and brokerage

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

2013					SAR '000
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	**11,182,470**	**36,953,160**	**14,360,520**	**505,082**	**63,001,232**
Total liabilities	**25,238,662**	**6,464,671**	**14,155,670**	**310,298**	**46,169,301**
Income from investments and financing, net	**555,322**	**946,927**	**329,874**	**2,712**	**1,834,835**
Fees from banking services and other income	**76,094**	**178,309**	**151,511**	**38,326**	**444,240**
Total operating income	**631,416**	**1,125,236**	**481,385**	**41,038**	**2,279,075**
Charge for impairment on financing	**52,173**	**222,051**	**-**	**-**	**274,224**
Depreciation and amortization	**76,178**	**55,687**	**21,355**	**921**	**154,141**
Other operating expenses	**466,098**	**239,669**	**93,604**	**36,146**	**835,517**
Total operating expenses	**594,449**	**517,407**	**114,959**	**37,067**	**1,263,882**
Net operating income / (loss)	**36,967**	**607,829**	**366,426**	**3,971**	**1,015,193**
Share of loss from associate	**-**	**-**	**(10,436)**	**-**	**(10,436)**
Net income / (loss)	**36,967**	**607,829**	**355,990**	**3,971**	**1,004,757**

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
Income from investments and financing, net	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

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

2013					SAR '000
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	9,400,520	35,523,102	10,155,673	182,324	55,261,619
Commitments and contingencies	-	7,792,972	-	-	7,792,972
Total	9,400,520	43,316,074	10,155,673	182,324	63,054,591

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

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, review and approval process, documentation, concentration limits, and day to day account management and problem recognition/remedial action.

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.

2013	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
					SAR'000
Financial assets					
Cash and balances with SAMA	4,972,467	-	-	-	4,972,467
Due from banks and other financial institutions	3,081,639	1,187,489	580,594	122,459	4,972,181
Investments	5,137,775	-	261,691	-	5,399,466
Financing, net	44,923,623				44,923,623
Other assets	1,183,787	-	-	-	1,183,787
Total financial assets	59,299,291	1,187,489	842,285	122,459	61,451,524
Financial liabilities					
Due to banks and other financial institutions	200,000	-	-	736	200,736
Customers' deposits	42,762,623	-	-	-	42,762,623
Other liabilities	2,757,825		-	-	2,757,825
Total financial liabilities	45,720,448	-	-	736	45,721,184
Commitments and contingencies	7,792,972	-	-	-	7,792,972
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	3,468,963	-	-	-	3,468,963

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

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

2013	**SAR'000**				
	Kingdom of Saudi Arabia	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Non performing financing, net	**302,482**	**-**	**-**	**-**	**302,482**
Allowances charge for impairment on financing	**514,220**	**-**	**-**	**-**	**514,220**

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

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.

ii. Market Risk – Non Trading Book

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

a) Profit Rate Risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. While the Bank cannot enter into 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.

						SAR'000
2013	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	4,972,467	4,972,467
Due from banks and other financial institutions	3,686,641	943,937	187,523	-	151,080	4,972,181
Investments	1,350,000	2,200,000	-	1,087,117	762,349	5,399,466
Financing, net	10,148,775	11,727,659	17,682,148	5,365,041	-	44,923,623
Property and equipment, net					1,474,912	1,474,912
Other assets					1,258,583	1,258,583
Total assets	15,188,416	14,871,596	17,869,671	6,452,158	8,619,391	63,001,232
Liabilities & shareholders' equity						
Due to banks and other financial institutions	200,000	-	-	-	736	200,736
Customer deposits	11,872,248	8,610,194	5,763	-	22,274,418	42,762,623
Other liabilities	-	-	-	-	3,205,942	3,205,942
Shareholders' equity	-	-	-	-	16,831,931	16,831,931
Total liabilities & shareholders' equity	12,072,248	8,610,194	5,763	-	42,313,027	63,001,232
Yield sensitivity - On statement of financial position	3,116,168	6,261,402	17,863,907	6,452,158	(33,693,636)	
Yield sensitivity - Off statement of financial position	4,741,787	2,478,186	556,531	16,468		7,792,972
Total Yield sensitivity gap	7,857,955	8,739,588	18,420,438	6,468,626		
Cumulative yield sensitivity gap	7,857,955	16,597,544	35,017,982	41,486,608		

20 12	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
						SAR'000
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		

b) Currency Risk

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

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

	2013 SAR'000	2012 SAR'000
Assets		
Cash & balances with SAMA	**96,941**	24,288
Due from banks and other financial institutions	**3,514,530**	5,742,717
Investments	**261,694**	113,321
Financing, net	**187,523**	168,543
Other assets	**35,926**	52,836
Total currency risk on assets	**4,096,614**	6,101,705
Liabilities		
Due to banks and other financial institutions	**43**	551,795
Customers' deposits	**6,184,167**	7,374,643
Other liabilities	**213,829**	114,670
Total currency risk on liabilities	**6,398,039**	8,041,108

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

	2013 SAR'000	2012 SAR'000
USD	**(3,155,814)**	(2,734,649)
Euro	**(65)**	(1,030)
UAE Dirham	**(482)**	3,067
BHD	**852,367**	635,199
QAR	**(363)**	157,555
Others	**2,932**	455
Total	**(2,301,425)**	(1,939,403)

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. 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, 2013 and 2012 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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.

2013						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	200,098	-	-	-	736	200,834
Customers' deposits	34,194,829	8,711,316	6,043	-	-	42,912,188
Other liabilities	-	-	-	-	3,205,942	3,205,942
Shareholders' equity	34,394,927	8,711,316	6,043	-	3,206,678	46,318,964
Total liabilities and shareholders' equity	200,098	-	-	-	736	200,834

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

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

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

2013	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	**4,972,467**	**-**	**-**	**-**	**-**	**4,972,467**
Due from banks and other financial institutions	**3,840,721**	**943,937**	**187,523**	**-**	**-**	**4,972,181**
Investments	**1,457,908**	**2,428,784**	**392,106**	**1,087,117**	**33,551**	**5,399,466**
Financing, net	**5,635,147**	**6,467,494**	**22,991,198**	**9,829,784**	**-**	**44,923,623**
Property and equipment, net	**-**	**-**	**-**	**-**	**1,474,912**	**1,474,912**
Other assets	**-**	**-**	**-**	**-**	**1,258,583**	**1,258,583**
Total	**15,906,243**	**9,840,215**	**23,570,827**	**10,916,901**	**2,767,046**	**63,001,232**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**200,736**	**-**	**-**	**-**	**-**	**200,736**
Customers' deposits	**34,146,666**	**8,610,194**	**5,763**	**-**	**-**	**42,762,623**
Other liabilities					**3,205,942**	**3,205,942**
Shareholders' equity	**-**	**-**	**-**	**-**	**16,831,931**	**16,831,931**
Total	**34,347,402**	**8,610,194**	**5,763**	**-**	**20,037,873**	**63,001,232**
Commitments & contingencies	**4,741,787**	**2,478,186**	**556,531**	**16,468**	**-**	**7,792,972**

2012	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	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

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 price that would be received on sale of an asset or paid to discharge a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability

The fair values of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

The Bank uses following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active market for the same instrument (i.e. without modification or repacking):

Level 2: quoted prices in active market for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2013				SAR'000
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held as FVIS	**107,908**	**-**	**-**	**107,908**
Financial assets held as 'available for sale'	**1,708,007**	**-**	**-**	**1,708,007**
Total	**1,815,915**	**-**	**-**	**1,815,915**

2012				SAR'000
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held as FVIS	28,277	-	-	28,277
Financial assets held as 'available for sale'	987,979	-	-	987,979
Total	1,016,256	-	-	1,016,256

There were no transfers between the fair value hierarchy levels during the year.

31. Employees share-based plans

Significant features of the employee share based schemes outstanding at the end of the year are as follows:

Nature of scheme	ESPS	ESGS
No. of outstanding Schemes	One	One
Grant date	June 01, 2013	April 01, 2013
Maturity date	May 31, 2016	March 31, 2018
Number of shares granted	2,580,654	3,032,000
Vesting period	3 years	3-5 years
Value of shares granted (SAR)	36,129,156	39,870,800
Strike price per share at grant date (SAR)	11.5	-
Fair value per share at grant date (SAR)	14.0	13.15
Vesting conditions	Employee remains in service and meets prescribed performance criteria	Employee remains in service and meets prescribed performance criteria
Method of settlement	Equity	Equity
Valuation model used	Market Value	Market Value
Weighted average remaining contractual life	2.42 years	4.25 years

The movement in weighted average price and in the number of shares in the employees share participation scheme is as follows:

	Weighted average exercise price (SAR)		Number of shares in scheme	
	2013	2012	**2013**	2012
Beginning of the year	-	-	-	-
Granted during the year	11.5	-	2,580,654	-
Forfeited	-	-	-	-
Exercised/expired	-	-	-	-
End of the year	11.5	-	2,580,654	-
				-
Exercisable at year end	-	-	-	-

These rights are granted only under a service/performance condition with no market condition associated with it. Total amount of expense recognized during the year in these consolidated financial statements in respect of these schemes was SAR 10.25 million. (2012: NIL).

32. 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:

	2013 SAR'000	2012 SAR'000
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing	**5,956**	206,085
Customers' deposits	**5,075,490**	4,894,387
End of service benefit	**8,962**	6,851
Investments	**33,551**	43,987
Mutual funds managed by the Bank	**88,895**	72,429

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

	2013 SAR'000	2012 SAR'000
Income on financing	**355**	12,559
Return on time investments	**70,823**	43,576
Directors' remuneration	**2,651**	2,859

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:

	2013 SAR'000	2012 SAR'000
Short-term employees benefits	**42,652**	40,693
End of service benefit	**2,111**	3,364

33. 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	2013 SAR'000	2012 SAR'000
Credit Risk Weighted Assets	**50,231,214**	43,940,575
Operational Risk Weighted Assets	**3,433,374**	2,561,291
Market Risk Weighted Assets	**6,830,683**	4,773,266
Total Pillar-I Risk Weighted Assets	**60,495,271**	51,275,132
Tier I Capital	**16,831,931**	16,608,419
Tier II Capital	**328,487**	200,141
Total Tier I & II Capital	**17,160,418**	16,808,560
Capital Adequacy Ratio %		
Tier I ratio	**28%**	32%
Tier I + Tier II ratio	**28%**	33%

34. BASEL III Pillar 3 and Capital Structure disclosures

Certain additional quantitative and qualitative disclosures are required under Basel III. These disclosures will be made available to the public on the Bank's website (www.alinma.com) within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 247.7 million (2012: SAR 178.5 million).

36. 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, 2014.

Standard, and amendments	Effective date	Brief description of changes
IFRS 9 "Financial Instruments"	**not yet decided**	IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
Amendments to IFRS 10 "Consolidated Financial Statements"	**January 01, 2014**	These amendment provide consolidation relief for investment funds if it fulfills certain specified conditions.
Amendments to IAS 32 "Financial Instruments: Presentation"	**January 01, 2014**	It clarifies: a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.
Amendment to IAS 36 " Impairment of assets"	**January 01, 2014**	It requires certain disclosure of information about the recoverable amount of impaired assets.

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

37. Comparative figures

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

38. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 26 Rabi Awal 1435H (corresponding to 27 January, 2014).

Basel III Pillar 3 - Qualitative Disclosure

BASEL III Pillar 3 Disclosures for FY 2013

1. Overview

The Pillar 3 Disclosure for financial year ending 31st December 2013 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).

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 III 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 ending 31st December 2013. 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 December 31, 2013, the shareholders' equity totals SAR 16.831 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 as an SPV to facilitate mortgage financing and to only 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)

For Operational Risk, the Bank is in the process of migrating from BIA to TSA. Accordingly, a pilot program was conducted for the last two quarters during FY 2013 to calculate risk capital requirements for both BIA and TSA approaches. Based on the outcome of the pilot testing, the following are the key findings and observations:

- The regulatory operational risk capital using TSA is insignificantly lower than BIA
- In TSA, the capital charge is allocated per business lines (the biggest part is in CBG)

The Bank will formally seek SAMA approval for adopting the TSA for 2014. The Bank will also continue to collect loss data history and compare those against the allocated capital per business lines in preparation for the Advance Measurement Approach (AMA) that the Bank is planning to implement in the long term.

The Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2013 stood at 28.37 %.

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 of BASEL III (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 of BASEL III (e.g. Residual Risks);
- Risks not taken into account by Pillar 1 of BASEL III (e.g. profit rate risk in banking book, liquidity risk, business/strategic risk, reputational risk, macroeconomic 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 under BASEL III regime

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 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 macroeconomic, 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 with an objective to assess the resiliency, solvency, liquidity and profitability of Alinma Bank to various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise where applicable, are measured on the following indicators of the bank:

- Assets quality – increase/decrease in nonperforming assets measured in terms of ratio to financing assets;
- Profitability – increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);

Liquidity position – measured in terms of changes in key liquidity indicators. 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 Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers 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 EXCOM, ALCO and RMC, 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 Risk Officer, the Chief Credit Officer and the Head of Corporate Banking. Concentrations in terms of funding sources are monitored by Treasury Management, Market Risk and ALCO. 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 Finance 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 has implemented 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 III 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 2014. In this context, the Bank will formally seek SAMA approval for adopting the TSA for 2014. The Bank will also continue to collect loss data history and compare those against the allocated capital per business lines in preparation for the Advance Measurement Approach (AMA) that the Bank is planning to implement in the long term.

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. Macroeconomic and business cycle risk

The Macroeconomic and business cycle risk is a risk factor that will in turn give rise to other risk types like credit, market or liquidity. The Bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the Bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk.

18. Strategic Risk

Strategic Risk of the Bank refers to the risk to its earnings and profitability arising from its strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, Strategic Risk arises due to external causes, arising out of adopting wrong strategies and choices that can cause loss to the Bank in the form of reduction in shareholder value, loss of earnings, etc.

The Bank has assessed its Strategic Risk based on a very conservative scorecard approach considering various risk drivers / factors related to strategic planning process and Implementation capabilities.

19. Reputational Risk

Reputational Risk refers to the potential adverse effects, which can arise from the Bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity etc.

The Bank has assessed the Reputational Risk based on a scorecard approach. The scorecard benchmarks various risk drivers to best practices and generates an overall score.

20. Risk Based Compensation

The Bank is currently engaged in the development of a Risk-based compensation framework. This framework will identify the employees undertaking material risks on behalf of the Bank, the metrics to be used to track those risks and alignment of the variable compensation structure to the identified risks. The variable compensation structure will incorporate the following elements: the determination of the bonus pool for senior employees; the allocation of bonuses to employees; the identification of employees subject to annual performance bonus deferral; the size of bonus deferral to be used; and the bonus deferral vehicle.

Bank has a Retention Policy along with timelines for implementation. The bank has two programs under employee retention scheme:

- **JANA PROGRAM (EMPLOYEE SHARE OPTION PLAN):** The program aims to attract and retain employees as well as to enhance Alinma Bank's business through connecting the financial interests of employees with long-term shareholders values and at the same time, providing employees with a low-risk investment and savings opportunities. The program launched and implemented in June 2013.

- **ALINMA 'EMPLOYEE SHARE GRANT SCHEME':** The program aims is to attract and retain the best available individuals for positions of substantial responsibility and to boost loyalty by aligning the financial interests of Employees with long-term shareholder value. The program launched and implemented in April 2013.

21. Risk Management Group – The Road Ahead

The Bank has completed the implementation of ERM Framework across the enterprise and is now actively focusing on implementing the state of art systems for ERM Automation to strengthen its existing risk management infrastructure. Accordingly, there are several new risk management projects are planned for the FY-2014 & 2015.

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
Western Swaide Branch	Western Swaide Dist.	Western Ring Road Exit 27
King khaled Airport Branch	King khaled Airport	King khaled Airport - domestic arrival terminal
Al Deerah Branch	Al Deerah district	Al Imam Mohammed bin Saud bin Moqren St.

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
Al shati Branch	Al shati district	King Abdulaziz Road

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 829 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.

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